



Hovde

Financial Institutions
Monthly Overview

Capital Markets
Economic Data Review
M&A Statistics

June/July 2010

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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.

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“To provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes”

*—opening of the Banking Act of 1933
 (“Glass-Steagall Act”)*

It is eerie to think how words written nearly 80 years ago could be so applicable today. In the most sweeping financial regulatory reform since the 1930’s, regulators and Congress *finally* put forth legislation intended to end the inherent conflicts of interest and the risks of combining investment banking, asset management, and commercial banking under one roof. As proponents of seeing meaningful reform brought to a financial system on Wall Street that is rife with conflicts between the Wall Street banks/investment banks and their customers, as well as addressing the incredible level of risk brought to the global financial system by these entities while providing little to no value to anyone but those very same large entities, we are disappointed in the legislation that was recently enacted. In our opinion, the “Dodd-Frank Act” has numerous flaws. In some ways, it was far too lenient on Wall Street from the standpoint of allowing many conflicts to continue to exist and the exceptionally long phase-in periods established to bring about reform. On the other hand, the Dodd-Frank Act went overboard on other aspects, particularly as it relates to the Consumer Financial Protection Bureau (CFPB)—which, while we are supportive of its end goal, we do not support the creation of a massive bureaucracy which we believe will only hurt the access to consumer credit in the long run. Furthermore, many practical solutions could easily have been addressed through private market approaches, yet were skewed by Wall Street’s lobbying effort or by this Congress’ belief that a government approach is always the right approach.

The general tone which emanated from television talking heads, sell-side analysts, and market pundits, alike, has been that the financial industry and banks should breathe a sigh of relief as they dodged the proverbial bullet with this “watered down” financial reform. We agree that the large Wall Street firms did dodge numerous bullets or at least pushed certain profit-hurting provisions off into the future. However, even though we would have preferred to have seen certain aspects of the Dodd-Frank Act strengthened in some

respects, we believe that the effects of these new rules and regulations stemming from the legislation are much more onerous on the financial services industry—particularly, the large commercial banks—than many have been led to believe. As such, the Dodd-Frank Act will impact many of the large financial companies and cause them to experience a not so insignificant hit to their bottom lines once it is all said and done.

While the devil remains in the details as the minutiae continues to be analyzed, what we will attempt to do in this piece, which is different than most legal pieces written about the Dodd-Frank Act, is to describe the practical effects and eventual outcomes that we believe will occur. We will not focus on all of the numerous changes that occurred in this legislation over the course of its consideration by Congress given that it is nearly 850 pages. However, we will address what we believe are the highlights and critical points that will affect our financial system going forward. As such, we will break down our overview into three sections and, within each of these parts, we will address the various provisions that we believe are the most relevant as well as what we believe their impact will be:

- First, the impact to the Wall Street business model since the repeal of Glass-Steagall;
- Second, the effects on the commercial banking industry, in particular as it pertains to consumer lending; and,
- Third, the altered regulatory oversight environment in Washington and the revamping of the credit rating agency industry.

The impact on the Wall Street business model: *There are five major provisions that will have a lasting impact on the modern Wall Street business model. They are:*

- *The “Volcker Rule”;*
- *Derivatives and how they will have to be traded and cleared as well as the required spinoff of certain derivative (“swap”) activities outside the commercial banks;*
- *The retention of credit risks which banks that securitize loans would now have to retain; and*
- *Finally, the creation of the Financial Stability Oversight Council (FSOC), which will have broad authority to enact numerous changes, including increasing capital levels or even breaking up companies that become too large.*

Volcker Rule. Perhaps the most highly publicized of the regulatory reform provisions, the Volcker Rule would ban proprietary trading at banks—although there would be exemptions for market-making, hedging, and activities related to underwritings; trading in Treasury, agency, and municipal securities; and, activities related to open contracts as of May 1st. Banks would also be limited to investing up to 3% of their Tier 1 capital in hedge funds and private equity funds and could hold no more than a 3% stake in any such funds, as well. However, there do not appear to be any restrictions on banks in terms of managing or sponsoring these alternative investments nor a cap to the fees they can garner from running these investments. It is also important to note that the final language also restored the so-called “Hotel California” provision, which would block bank holding companies from converting to investment bank status in order to escape provisions of the Volcker Rule—keeping Goldman Sachs and Morgan Stanley directly under this rule.

Impact of provision: Though scaled back from its original form, the Volcker Rule is an important step in addressing the inherent conflict of interests between the Wall Street firms and their clients as well as reducing the wild risks which have become prevalent on Wall Street since the repeal of the Glass-Steagall Act in 1999. Many Wall Street firms, most notably Goldman Sachs, derive substantial portions of their earnings from proprietary trading activities. Unfortunately, for these firms’ clients, they were often on the wrong side of the bet that Wall Street firms were making, as recently highlighted by the Securities and Exchange Commission’s (SEC) case against Goldman Sachs in regard to the Abacus collateralized debt obligation (CDO) deal. When a firm is not only selling its clients products—such as asset-backed securities (ABS), corporate or sovereign debt, and a variety of different derivatives—but making their own internal capital bets on those same products, it will inevitably lead to significant conflicts that do not serve those clients’ interest, as demonstrated during the 1920’s and clearly over the last decade. As such, prohibiting aspects of these trading activities—which have been cash cows for Wall Street for the last decade—will have a detrimental impact to the large investment banks’ bottom lines.

Limiting the large proprietary investments which these companies can make in hedge funds and private equity, as well as other alternative investments (e.g., investing in natural gas projects and electrical plants), will clearly help reduce the risk to taxpayers having to provide another financial bailout for these firms. As it pertains to the financial impact to these companies, it will clearly reduce the volatility in their earnings during both good and bad times. That is to say that, in good times, these companies were able to make a large amount of money in their alternative investments, particularly in their hedge funds and private equity funds. Conversely, many of these firms took significant hits in 2008 on these investments, as their holdings were pummeled by the financial crisis. Thus, you will see a smoother earnings stream but probably at reduced levels going forward as a result of this change. Importantly, though, it does not limit these firms’ ability to continue to sponsor funds and to continue to derive the fees from those funds. However, without a large investment by the investment banks in their sponsored funds and their restriction in being able to bail out their own funds, we are not sure why others would want to invest in a fund where the sponsor has so little economic interest.

Additionally, while we are very supportive of the Volcker Rule, the one major issue which we have is the time frame for its implementation, as some legal analysts estimate that under the most extreme circumstances, banks would have up to 12 years to be compliant—a disconcerting potential dynamic to say the least. In our view, the Volcker Rule will have little to no impact for most of the commercial banking space; however, it will have a direct and meaningful impact over the long-term to the likes of Goldman Sachs, Morgan Stanley, and Citigroup. In fact, we have already started to see the structural impact of this provision on investment banks’ business models as, just last week, it was reported that Goldman Sachs may shift its proprietary trading business into a separate fund and raise outside capital by year’s end—well ahead of the four-year time frame which is the soonest banks would need to be compliant.

Derivatives Regulation. There are two major provisions in the derivatives regulations: one is forcing derivatives transactions onto an exchange and off of the over-the-counter (OTC) market, and the other is the “Lincoln Amendment,” which requires the spin-off of certain derivative (swap) activities from the banking entity to a non-depository affiliate under the bank holding company structure. The first provision affects the overall trading of derivatives by moving them from the opaque world of OTC trading to forcing most of these transactions to be traded on exchanges and routed through clearing houses. Customized swaps could still be traded on the OTC market, but they would have to be reported to central repositories. After some back and forth between both sides, commercial/non-financial businesses (e.g., airlines and basic material producers) that use derivatives to hedge risk—commonly referred to as “end users”—would be exempt from clearing requirements as long as their activities are done in such a manner as to legitimately hedge business risks.

As it pertains to the Lincoln Amendment, this provision was watered down in the final hours in order to garner enough votes. What it did was to allow banks to continue to serve as swap dealers for interest rate swaps, foreign exchange, cleared credit default swaps (CDS) on investment grade entities, and gold- and silver-related swaps. However, this amendment still had meaningful teeth, in that it would require firms to move the trading of other swap activities (including non-cleared CDS, equity-related swaps, commodities, agricultural, energy, and metals (excluding gold and silver)) to a separate affiliate within the bank holding company and to capitalize this new swap desk affiliate. Again, this is an important step in that these affiliates cannot be bailed out by taxpayers and will provide more structure, capital, and stability to the system. Hopefully, the enactment of both of these provisions, will reduce the notional value of the approximately \$600 trillion of total derivatives in the financial system—an absurd level that, again, only benefited a few large Wall Street firms, while causing the taxpayers to have to bail out and fund AIG to the tune of more than \$170 billion. The Dodd-Frank Act would also impose new capital, margin, reporting, record-keeping, and business conduct rules on firms that deal in derivatives—although

many of these details and exact definitions are still being sifted through.

Impact of provision: While we are pleased that steps are *finally* being taken in the right direction on derivative transactions, we would have preferred to have seen all derivative transactions be required to take place on an exchange and away from the shadowy corners of the OTC market in order to provide the type of transparency on pricing and liquidity available in most other financial markets. After all, by trading in the OTC market, participants and end users do not have a clear idea of pricing and liquidity—a dynamic which ultimately only benefits a handful of the large Wall Street firms. Furthermore, we are disappointed that the Dodd-Frank Act did not require the posting of cash collateral for all CDS—a market with nearly \$25 trillion of notional value—and forcing all CDS trading onto exchanges. This would have been a simple private market approach that, in our opinion, would have cleaned up this financial ticking time bomb. As long as firms can take billion dollar bets through the CDS market on countries, states, or companies without posting meaningful cash collateral (i.e., at least 50%) or holding the underlying debt obligations—something which *most every other financial market in the world requires*—it will continue to pose an enormous risk to the entire global financial system. However, by moving derivatives trading to exchanges and clearinghouses—which finally implements some standardization in this market—and by moving some trading to a separate affiliate, this will make this business not nearly as profitable as it once was for the large investment banks. Therefore, over the longer term, we expect a material impact to the “Gang of Five” (Goldman Sachs, Morgan Stanley, Citigroup, JP Morgan Chase, and Bank of America/Merrill Lynch), which, according to the Office of the Comptroller of the Currency (OCC), held 97% of the estimated \$213 trillion in notional derivatives value at U.S. commercial banks as of the fourth quarter of 2009. However, due to the phase-in periods, it may take a few quarters before the investment market starts to realize the true impact of these provisions.

Securitization. The Dodd-Frank Act would require banks that package loans to retain 5% of the credit risk on their balance sheets. While this provision would exempt “qualified” mortgages (which still need to be fully defined by regulators, but will consist of certain stringent requirements) and FHA loans, most GSE eligible loans would be covered and certain commercial mortgage-backed securities (CMBS) may also qualify for some exemptions. Unlike other provisions in the Dodd-Frank Act, as of now, it seems as if this part is on the fast track—relatively speaking—as regulators are required to implement rules within 270 days after enactment of the legislation.

Impact of provision: This provision will clearly change the economic behavior of Wall Street that was prevalent over the last decade, whereby the large banks would willingly originate horrible credit, package it, securitize it, sell it, and take out significant fees without having to retain any credit risk. As we know from history, by disconnecting credit origination from the ultimate credit holder, the final result has always ended up poorly. The immediate impact to Wall Street’s earnings will not be that significant because of the collapse of the securitized market over the past two years—a market in which the only player has been the government, mainly via its now-ended Term Asset-Backed Securities Loan Facility (TALF). However, we will never see the return to those outsized profits that the securitization desks on Wall Street created. Instead, going forward, Wall Street will chase higher quality credit to securitize in order to ensure that they do not lose money on the 5% retained interest that they are now required to keep.

Consequently, since this provision will naturally decrease the overall issuance of securitized products, there will be a meaningful decrease in the demand for loans from lenders who sell to the large underwriters and who rely on this funding in order to make loans to consumers and small businesses, alike. Unfortunately, as the last domino to fall, this dynamic will ultimately cause credit to further dry up for consumers and small businesses, and for those that do qualify for a loan, it will only become more expensive. Ultimately, this negatively impacts not only Wall Street’s future earnings power but the availability of credit for lower credit borrowers.

Financial Stability Oversight Council (FSOC). This new entity will be created with 10 representatives from the Treasury, the Federal Reserve, the FDIC, the SEC, the Commodities and Futures Trade Commission (CFTC), and other regulatory bodies, and would be chaired by the Treasury Secretary. The FSOC will be charged with completing a study within six months of what constitutes proprietary trading (versus market making or other hedging activities) as it relates to the Volcker Rule. After the study is completed, the SEC and the CFTC (as an aside, each of which received an additional \$100 million in funding as part of the Dodd-Frank Act) will have nine months to implement it; but it could take anywhere from 3 ¼ to up to 6 ¼ years for actual implementation. Among other powers, the FSOC is granted the authority to impose more stringent capital, leverage, liquidity, resolution plans, and other requirements for financial firms with more than \$50 billion of assets. Additionally, in a direct attempt to address the “too big to fail” issue, the FSOC can authorize regulators to bar an institution from mergers, restrict the products it can sell, or, in extreme cases, grant them the power to break up the company altogether should it pose a “great threat” to financial stability. Under the auspice of the Dodd-Frank Act, regulators are also permitted to impose leverage limits of 15-to-1 (calculated on a debt-to-equity basis) on large banks which are deemed to pose a threat to financial stability. Finally, as part of the “Collins Amendment,” trust preferred securities (TruPS) would be banned from being counted as Tier 1 capital for institutions with more than \$15 billion of assets (they would have five years to replace the securities in their Tier 1 capital), while smaller-sized banks would have their TruPS grandfathered.

Impact of provision: Predicting what the impact of the FSOC will be is honestly difficult to assess at this point, as it will come down to who the actual voting representatives are when it is time to officially launch this council and whether they have tended to have a favorable or detrimental view of Wall Street and its practices. In general, though, this could be one of the strongest pieces of the Dodd-Frank Act—again depending on who the council members are—and has the potential to be a large negative for the behemoth

financial institutions, as the government has clearly gained the upper hand in terms of the regulatory power it can wield when it comes to imposing higher capital requirements. Also, by increasing liquidity levels and potentially imposing a leverage limit of 15-to-1 for large banks, it finally reverses the SEC's 2004 exemption, which permitted the then five independent investment banks (Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers, and Bear Stearns) to lever their balance sheets up to 40-to-1—a debt-to-net capital ratio which, in the 30 years before the SEC's exemption, had limited broker-dealers to 12-to-1. As noted above, further hurting the large financial institutions is the requirement that banks with more than \$15 billion of assets have five years to replace TruPS in their Tier 1 capital—an obvious blow to the larger banks, as the cost of their TruPS is significantly lower than common equity. These changes will only force the large banks to increase capital, liquidity, and reserve levels even more, which, in turn, will continue to place more downward pressure on their return on equity (ROE).

Lastly, although this aspect may have been glossed over as debate tended to circle around more headline-grabbing provisions, such as the Volcker Rule and derivatives, the fact that regulators now have no excuses not to break up a large financial institution that poses a systemic risk to the stability of the financial system is important and, frankly, long overdue. Just as important, the Dodd-Frank Act stipulates that government funds may not be used for bailing out/preventing the liquidation of large, failing institutions and, instead, all costs are to be borne by shareholders and unsecured creditors. As such, this provision has two impacts. First, it would finally protect U.S. taxpayers after hundreds of billions of dollars were used to bailout the likes of Fannie Mae and Freddie Mac, AIG, Citigroup, and Bear Stearns. Second, it would remove the safety net to bailout the bondholders of the behemoth financial institutions should their poor risk management processes catch up with them yet again. By ultimately removing this semi-implicit government guarantee, over time, it should increase the cost of borrowing for these giant financial firms.

While we believe ending “too big to fail” is essential for the long-term sustainability of the U.S. and global financial system, we are concerned that the government—namely the FDIC—simply does not have the capabilities and processes in place to effectively take over mammoth and complex financial institutions in an orderly manner without causing severe disruptions to the marketplace. Of course, what remains to be seen is the million—or, to be more appropriate in today's environment, trillion—dollar question: would the government ever actually wield this heavy stick and show Wall Street once and for all that a company is in fact not “too big to fail”? While we hope that such a choice will not have to be made, as it would mean that we are in another deep financial crisis similar to the fall of 2008, only time will tell if regulators and policymakers would actually have the fortitude to make such a decision.

The effects on the commercial banking industry and consumer credit: The main provisions which will have significant impacts on the commercial banking industry and consumer credit are: the creation of the CFPB; the issue of preemption; and, long overdue changes to the residential mortgage process.

Consumer Financial Protection Bureau (CFPB). Slated to be housed within the Federal Reserve, this new agency will have the authority to write new regulations and enforce those rules for all consumer products at banks and credit unions with assets of more than \$10 billion. In addition, it will have authority over pay day lenders, check cashers, and certain other non bank financial firms. However, auto dealers and pawn brokers are exempt. The President nominates the CFPB director to a five-year term which is subject to a Senate vote requiring at least 60 Senators for confirmation.

Impact of provision: This newly created regulatory agency will, in our view, have a significant impact to consumer banking profitability and consumer credit availability. Originally, we, as many, expected that this new agency would have the broad mandate to write new rules and

have the existing regulatory authorities (i.e., the Federal Reserve, the FDIC, the OCC, the SEC) enforce those rules. However, Congress, in our opinion, created another giant bureaucratic layer, as the CFPB's estimated budget is slated to be an astounding \$850 million. To say the least, we are perplexed as to why Congress did not use the existing regulatory agencies, which not only perform the safety and soundness examination process of a bank but also enforce all rules and regulations through that examination process, for this purpose. These agencies also address specialized exams as they pertain to the Bank Security Act (BSA) and the Community Reinvestment Act (CRA). The CFPB, could therefore, have been staffed by a small group of policymakers and attorneys who would write new consumer protection regulations and, instead, simply use existing agencies to review and enforce all consumer banking regulations as part of their examination processes.

As such, while we clearly were supportive of a new agency to reign in many of the abusive and predatory lending and depository practices that the banking industry has engaged in over the last decade, it is our view that the creation of an additional regulatory examination force and the costs that will come with it were totally unnecessary. Further, it will just cause confusion for financial institutions and, most likely, put many banks in the crosshairs between the existing regulatory agencies and the CFPB. As a result, it will only burden consumer lenders at the worst possible time with not only new policy actions but a whole additional regulatory regime and exam process—thus, adding to the cost and risk of consumer lending. Consequently, one of two things will occur: either these costs will be passed onto consumers in the form of higher fees and rates or there will be a significant exodus of consumer lending from the market.

In addition to the likelihood of higher fees and rates being passed onto consumers, in what stands to further sap an already drying-up consumer credit market, it seems as if the CFPB will have the authority to regulate what rates lenders can charge. Consequently, this would be a backdoor way by which the government will set interest rates for consumers and, once the banks see that the government has become

involved in the pricing of credit, banks will contract their lending even further. The outcome of this dynamic will be a collapse in consumer credit, which will likely lead to a binary effect, as those consumers who qualify for credit will be paying very high interest rates whereas the wealthy that do not need credit in the first place will elect not to take on additional debt and simply pay with cash—deleveraging the American consumer's balance sheet at an even faster pace. As a result of the CFPB and their ability to control and enforce all forms of consumer credit regulations, we expect banks of all sizes to either exit consumer lending all together or to radically shrink their exposure to consumer lending and, instead, move back into the business lending space.

Preemption. As it pertains to the issue of preemption at the state level, the new legislation would maintain the current standard for preempting state laws (“Barnett Standard”) but would require the OCC to exempt these laws on a “case-by-case” basis. Further, the OCC would only be permitted to preempt state laws if they “prevent or significantly” interfere with the business of banking. Another key change is that it would also provide state attorneys general the power to enforce certain rules as issued by the CFPB.

Impact of provision: While preemption was not done away with as many feared, it has made it far more difficult for federal regulators to provide blanket preemption of state laws. In our opinion, this is a meaningful component of the regulation of consumer banking and, therefore, should not be overlooked. By providing state attorneys general with the authority to enforce the new preemption provision as well as regulations issued by the CFPB, it only increases potential liabilities for the banking industry. Furthermore, by exempting national banks from state laws only if they “prevent or significantly” interfere with the business of banking, the bar which federal regulators must meet in order to preempt state rules has been raised—thus, strengthening the state regulators' power. The net effect is that it only increases the risk and liabilities to many of the larger commercial banks, which will make them far more cautious in engaging in abusive pricing practices in which many have engaged over the last decade.

Tighter mortgage standards. The Dodd-Frank Act would establish new national minimum underwriting standards for home mortgages, whereby lenders would be required for the first time to ensure that a borrower is able to repay a home loan by verifying the borrower's income, credit history, and job status, and would ban payments to brokers for steering borrowers to high-priced loans.

Impact of provision: These changes were inevitable given the fraud, abusive lending standards, and absurd ease with which borrowers could access credit during the 2002 to 2006 housing boom. As has been the theme in this section, with these stricter standards, consumer credit will become even less accessible, as only those with the best credit scores and history will be able to obtain a mortgage at a reasonable rate. While we are pleased that the government is finally making headway in terms of establishing universal standards for documentation, credit history, and employment, as well as predatory lending—which we believe are necessary changes—there is, again, the downside that it will make credit availability more difficult for those in the lower income brackets. The Dodd-Frank Act's impact on the banking industry means not only vastly lower mortgage production going forward but, more importantly, it will also hurt the independent mortgage companies given that many of them relied extensively on the high risk, alternative mortgage products to generate income. Consequently, this will enable the larger banks to capture a greater market share of an overall shrinking mortgage market pie. However, we still see a negative impact to banks' mortgage lending profitability, by having to focus solely on higher quality, conforming mortgages which is where the market is, and probably will remain, today.

Altering the regulatory environment in Washington: *In addition to the aforementioned creation of the FSOC and the CFPB, we feel that there are two other provisions which are set to have a meaningful impact on the financial industry's regulatory landscape. These include eliminating the Office of Thrift Supervision (OTS) and transferring most its oversight to the OCC as well as to the FDIC and Federal Reserve, and the revamping of the credit-ratings industry.*

Changes for Washington and the regulators. The Dodd-Frank Act enacts some fairly significant changes to the regulatory structure in Washington. First, within 18 months, the OTS would have to transfer most of its authorities to the OCC (which will now supervise nationally-chartered thrifts), as well as to the FDIC (supervising state-chartered thrifts) and to the Federal Reserve, which would have oversight of thrift holding companies. Ninety days following these transfers of power, the OTS would have to be abolished with its budget and most of, if not all, its staff inherited by the OCC.

Second, is the long overdue revamping of the credit rating agencies. The rating agencies were main contributors to the implosion of the credit markets given their business model evolved into doling out favorable ratings for ABS and CDOs, regardless of their underlying holdings, in return for payments from the issuing investment banks. The Dodd-Frank Act establishes a new, quasi-government entity—the Office of Credit Ratings—with the intention of addressing conflicts of interests following an SEC study. Further, this office would write new rules requiring credit agencies to set up internal controls in terms of determining credit ratings; establish an independent board of directors; make greater disclosures to the public and investors; and, develop universal ratings across assets classes and types of issuer. The Dodd-Frank Act would also provide this newly formed office with the authority to deregister a credit rating agency should it develop a track record of poor ratings over a certain amount of time. Importantly, the legislation mandates that the initial rating assignment of a security be randomly assigned—intended to separate the hiring of the security rater from the paying underwriter. Finally, what caught many by surprise was a last minute change in the Dodd-Frank Act which will now hold rating agencies liable for the ratings they provide on certain newly issued securitized products. Given that this eleventh hour twist immediately collapsed the issuance of new underwriting, the SEC issued a six-month exemption for the rating agencies in order to determine if there will be changes made to the rating agencies' liabilities.

Impact of provisions: Clearly, given the regulatory shopping by certain financial companies over the last decade—most importantly AIG—it was evident that the OTS would be eliminated and that banking and thrift oversight would be streamlined to the OCC, FDIC, and Federal Reserve. As it pertains to the impact on the banking industry, it reduces a bank's options if they get into disagreements with their primary regulator and, likely, over the longer term, empowers the regulatory bodies with a bit more teeth. On the flip side, it is a positive that the federal government is streamlining their operations—for once saving the taxpayers some money—and will make for more clearly defined enforcement actions and regulations.

As for the way in which credit ratings agencies go about selling their coveted stamp of approval to issuers, it was frankly time that this problem was addressed. For too long, this pay-for-ratings structure has gone unaddressed and it is unfortunate that “all” it took was the financial system nearly collapsing under the weight of toxic securities dressed up as investment grade securities in order to force Washington's hand in confronting this dilemma. Considering that there is an oligarchy of rating agencies—comprised of Standard & Poors, Moody's, and Fitch—coupled with the incestuous relationship between them and the large investment banks and their own large corporate clients, it formed a dysfunctional system whereby ratings were not being assigned purely based upon credit quality standards. Instead, ratings were perverted and often manipulated by the amount paid to the rating agencies. Not only did this hurt end investors (e.g., pension plans, endowments, individuals) who relied on these faulty ratings, but it also hurt state and local governments, whose credit history has always been better than anything in the ABS or corporate markets from a credit loss standpoint. This was because, although certain state and local governments may have deserved a higher credit rating than they were given—for example, they were rated A but their credit history actually warranted a AA rating—the credit rating agencies instead bestowed comparable or higher ratings on the toxic securities issued by the investment banks—which in most cases should have had a low, junk status rating—in order to continue to receive their coveted structured finance business. This dual standard was an albatross for state and

local governments, as a lower rating not only caused these issuers to pay higher bond insurance premiums but it also increased their financing costs—which ultimately had to be funded by residents via higher taxes.

As a result of this perverse system riddled with conflicts of interest, investors could not fully trust the ratings of credit instruments at their face value. However, now the credit rating agencies will have to, finally, be fairer and more forthright in their evaluations of the debt securities which come across their desks for their blessing. The net result of this change is that securitized markets will shrink dramatically as will the fees that Wall Street collects from securitizing assets. Further, the ratings agencies will have far less transaction activity and will have to perform greater levels of work to justify their future existence as well as protecting themselves from potential liabilities. It is yet to be seen whether Congress will make an adjustment on the ratings agencies' liability. However, if they do not, both Moody's and Fitch Ratings have publicly stated that they will no longer provide ratings in future ABS offerings as a result of this new accountability (click [here](#) to read a recent article on this dynamic). As such, for now, these changes will not have as large of an impact to the bottom lines of the large investment banks as they would have had in the pre-crisis days, given the lack of issuance in this market. However, it does materially reduce future profit potential coming back to the investment banks, given that this new revamped system, coupled with the 5% risk retention requirement for securitized products which we discussed earlier, should prevent the misguided incentives from creeping back in the future.

Conclusion

While many uncertainties surrounding the Dodd-Frank Act still remain—by some estimates, there are more than 200 decisions which still will need to be made by regulators—in totality, the Dodd-Frank Act appears to be fairly negative for the large investment banks and financial institutions, as it could end up having a meaningful impact to not only their earnings but also to their overall business models. While we suspect that the largest financial firms will bemoan the harshness of this legislation, as more light is shown on the details as the rules and regulations are slowly put

into place, they have no one to blame but themselves. Further, although community and regional banks will by no means be immune to the effects of the Dodd-Frank Act—particularly the potential impact which the CFPB could have on their consumer and lending business—we do feel that the playing field between the smaller banks and the larger commercial banks is slowing slowly to even out. However, again, we do remain concerned that giving the government more unbridled power to intervene in the financial system, if not implemented effectively, the Dodd-Frank Act has the potential to create even more inefficiencies in the banking industry and could impede economic growth. Furthermore, we take issue with the fact that, when Congress is presented with a perfect opportunity to reform Fannie Mae and Freddie Mac, they still are not up to the task. Considering that these entities have already drawn nearly \$150 billion from an unlimited government (taxpayer) credit line and with worst-case scenarios for what it will cost to support these companies as high as \$500 billion, it is inexcusable that the future of these black holes are not properly addressed.

While the Dodd-Frank Act is not a law which we would have designed, and there are many faults with this law as we have addressed, we are finally pleased to see that the intolerable risky practices in which Wall Street has

engaged over the last 14 years are finally being reigned in. Additionally, some of the abusive lending practices that the large commercial banks have undertaken—such as ATM charges, overdraft fees, predatory mortgage and consumer lending practices—will also finally be curtailed. Again, while there are many details yet to be determined, the overall net effect of the Dodd-Frank Act is that it will reduce the profitability for investment banks as well as hurt consumer lending businesses for the large banks. While the further reduction in credit availability in the short-term will only compound the persisting economic problems, in the longer term, this will hopefully prove to be healthier for the country, as the U.S. economy begins to shift away from its dangerous and unsustainable dependency on debt in order to grow. Although many questions surrounding this law still remain, if history is a precursor of things to come, the Wall Street and commercial banking lobbying machines will fight to the tooth in order to weaken these rules. As such, we truly do hope that policymakers and regulators stick to their guns on the toughest provisions and—80 years after the last substantial regulatory overhaul of the financial system—that their priorities are the long-term viability and overall effectiveness of the U.S. financial system and banking industry as well as the U.S. taxpayer.

Federal Reserve Aggregate Bank Data

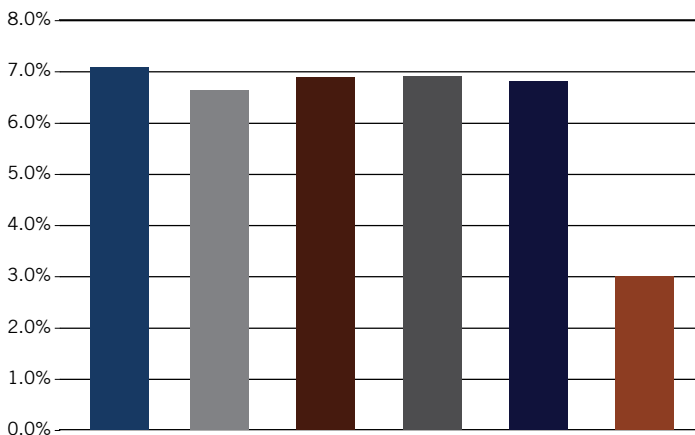
	6/2009	10/2009	11/2009	12/2009	1/2010	2/2010	3/2010	4/2010	5/2010	6/2010	MoM	YoY
ASSETS												
Securities												
Secs in Bank Credit	2,210	2,312	2,309	2,347	2,340	2,329	2,332	2,330	2,305	2,287	-0.8%	3.5%
Treasury & Agency	1,266	1,380	1,381	1,426	1,427	1,431	1,453	1,500	1,495	1,496	0.0%	18.1%
Other	944	932	928	921	912	897	879	830	809	791	-2.2%	-16.2%
Loans and Leases												
C&I	1,527	1,378	1,367	1,343	1,318	1,304	1,276	1,264	1,246	1,242	-0.3%	-18.7%
Real Estate	3,882	3,749	3,819	3,809	3,777	3,727	3,707	3,713	3,700	3,677	-0.6%	-5.3%
Consumer	863	847	842	832	817	812	902	1,178	1,165	1,167	0.2%	35.2%
Other	876	744	763	755	752	744	762	777	783	775	-1.0%	-11.4%
Other Assets	1,143	1,113	1,117	1,152	1,182	1,205	1,257	1,240	1,260	1,252	-0.7%	9.5%
Total Assets	12,151	11,799	11,769	11,681	11,639	11,727	11,723	11,869	11,875	11,822	-0.4%	-2.7%
LIABILITIES												
Deposits												
Large Time	1,870	1,886	1,880	1,892	1,866	1,854	1,852	1,800	1,746	1,753	0.4%	-6.3%
Other	5,589	5,754	5,802	5,792	5,785	5,826	5,842	5,867	5,913	5,940	0.5%	6.3%
Borrowings	2,420	2,002	1,959	1,917	1,888	1,860	1,861	1,898	2,045	2,001	-2.2%	-17.3%
Other Liabilities	437	395	406	417	399	397	422	434	457	450	-1.4%	3.0%
Total Liabilities	10,887	10,545	10,529	10,418	10,366	10,407	10,310	10,445	10,450	10,416	-0.3%	-4.3%
Residual (assets less liabilities)	1,264	1,254	1,240	1,264	1,273	1,320	1,414	1,425	1,425	1,405	-1.4%	11.2%

all values in \$ billions

SOURCE: Federal Reserve Documents

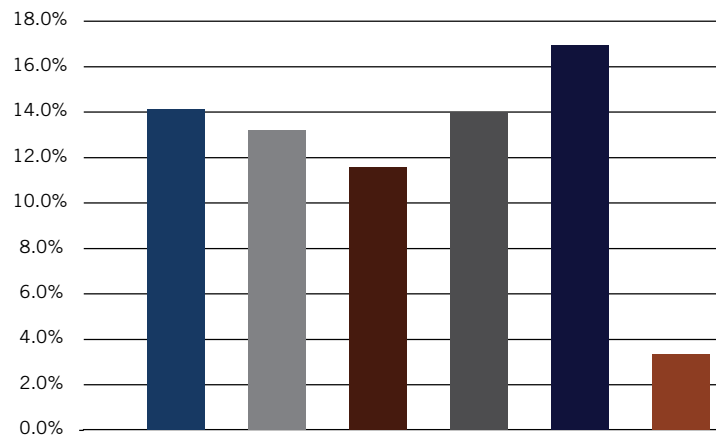
Major Market Index Performance

July 2010



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

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

	8/2009	9/2009	10/2009	11/2009	12/2009	1/2010	2/2010	3/2010	4/2010	5/2010	6/2010	7/2010
Dow Jones	3.5%	2.3%	0.0%	6.5%	0.8%	-3.5%	2.6%	5.1%	1.4%	-7.9%	-3.6%	7.1%
S&P Financial	12.9%	1.9%	-6.0%	4.2%	-1.6%	-1.5%	3.4%	8.8%	1.3%	-9.2%	-6.0%	6.6%
S&P 500	3.4%	3.6%	-2.0%	5.7%	1.8%	-3.7%	2.9%	5.9%	1.5%	-8.2%	-5.4%	6.9%
NASDAQ	1.5%	5.6%	-3.6%	4.9%	5.8%	-5.4%	4.2%	7.1%	2.6%	-8.3%	-6.5%	6.9%
Russell 2000	2.8%	5.6%	-6.9%	3.0%	7.9%	-3.7%	4.4%	8.0%	5.6%	-7.7%	-7.9%	6.8%
NASDAQ Bank	0.6%	0.2%	-6.9%	1.5%	3.3%	4.6%	1.7%	6.4%	6.4%	-9.0%	-7.0%	3.0%

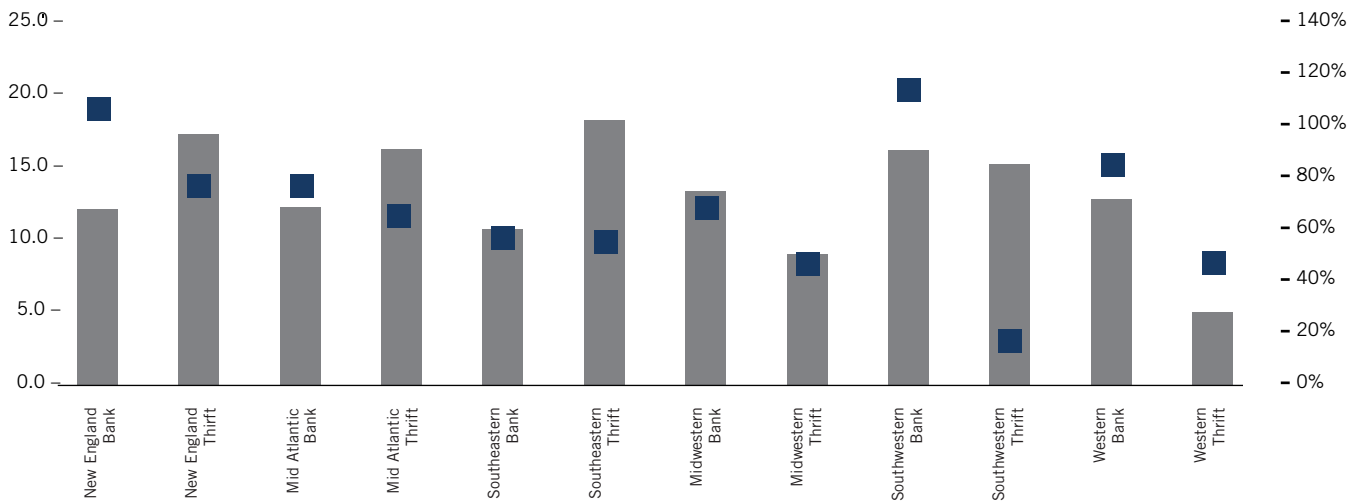
SOURCE: Bloomberg, LLC

Bank and Thrift Index Valuations

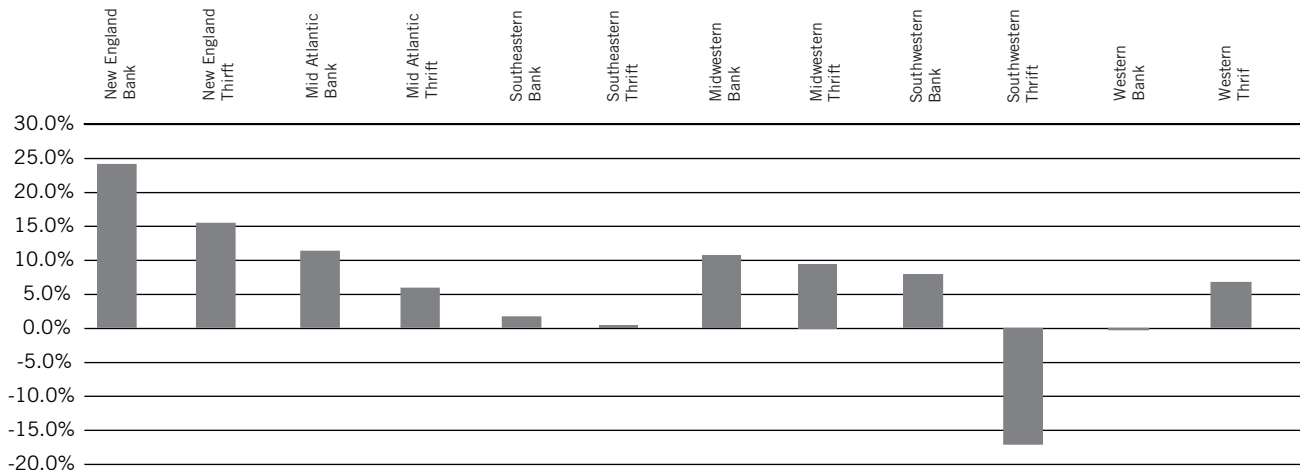
		Price / Earnings		Price / Book Value		Price / TBV		Price Performance			Component Companies
		Weighted Avg	Median	Weighted Avg	Median	Weighted Avg	Median	1 Mo	YTD	12 Mo	
New England	Bank	12.1	12.6	100%	102%	133%	111%	3.8%	24.1%	13.3%	20
	Thrift	11.5	18.0	87%	79%	102%	79%	4.6%	15.4%	9.2%	22
Mid Atlantic	Bank	11.0	12.8	93%	88%	75%	80%	3.0%	11.3%	1.9%	88
	Thrift	18.2	17.0	102%	69%	114%	68%	0.3%	5.9%	2.8%	54
Southeastern	Bank	9.6	11.2	69%	57%	63%	58%	-1.2%	1.7%	-11.6%	117
	Thrift	12.6	19.1	79%	52%	85%	56%	-0.8%	0.1%	-19.7%	11
Midwestern	Bank	13.6	13.9	125%	71%	153%	71%	1.2%	10.7%	-1.1%	86
	Thrift	11.8	9.4	120%	43%	123%	49%	0.9%	9.4%	-9.8%	43
Southwestern	Bank	14.5	16.9	102%	98%	138%	119%	-0.6%	7.9%	5.8%	20
	Thrift	12.1	15.9	80%	80%	55%	18%	2.2%	-17.2%	-18.5%	7
Western	Bank	9.7	13.4	95%	84%	74%	87%	4.8%	-0.1%	-5.2%	64
	Thrift	13.7	5.3	76%	49%	58%	49%	7.9%	6.8%	-4.9%	12

Index Valuations

■ Price / Tangible Book Value
■ Price / Earnings



YTD Price Performance



SOURCE: SNL Financial and Bloomberg, LLC

Economic Data Points - July 2010

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
7/1	Challenger Job Cuts YoY	JUN	--	-47.10%	-65.10%	--	7/16	Consumer Price Index (MoM)	JUN	-0.10%	-0.10%	-0.20%	--
7/1	Initial Jobless Claims	26-Jun	455K	472K	457K	459K	7/16	CPI Ex Food & Energy (MoM)	JUN	0.10%	0.20%	0.10%	--
7/1	Continuing Claims	19-Jun	4550K	4616K	4548K	4573K	7/16	Consumer Price Index (YoY)	JUN	1.20%	1.10%	2.00%	--
7/1	ISM Manufacturing	JUN	59	56.2	59.7	--	7/16	CPI Ex Food & Energy (YoY)	JUN	0.90%	0.90%	0.90%	--
7/1	Construction Spending MoM	MAY	-0.80%	-0.20%	2.70%	2.30%	7/16	Net Long-term TIC Flows	MAY	\$40.0B	\$35.4B	\$83.0B	\$81.5B
7/1	Pending Home Sales MoM	MAY	-14.20%	-30.00%	6.00%	--	7/16	Total Net TIC Flows	MAY	--	\$17.5B	\$15.0B	\$13.0B
7/1	Pending Home Sales YoY	MAY	--	-15.60%	24.60%	--	7/16	U. of Michigan Confidence	JUL P	74	66.5	76	--
7/1	Domestic Vehicle Sales	JUN	8.81M	8.57M	9.14M	--	7/19	NAHB Housing Market Index	JUL	16	14	17	16
7/1	Total Vehicle Sales	JUN	11.40M	11.08M	11.64M	--	7/20	Housing Starts	JUN	577K	549K	593K	578K
7/2	Unemployment Rate	JUN	9.80%	9.50%	9.70%	--	7/20	Housing Starts MOM%	JUN	-2.70%	-5.00%	-10.00%	-14.90%
7/2	Change in Private Payrolls	JUN	110K	83K	41K	51K	7/20	Building Permits	JUN	575K	586K	574K	--
7/2	Change in Nonfarm Payrolls	JUN	-130K	-125K	431K	432K	7/20	Building Permits MOM%	JUN	0.20%	2.10%	-5.90%	--
7/2	Factory Orders	MAY	-0.50%	-1.40%	1.20%	1.00%	7/21	MBA Mortgage Applications	16-Jul	--	7.60%	-2.90%	--
7/6	ISM Non-Manf. Composite	JUN	55	53.8	55.4	--	7/22	Initial Jobless Claims	17-Jul	450K	464K	429K	427K
7/7	MBA Mortgage Applications	2-Jul	--	6.70%	8.80%	--	7/22	Continuing Claims	10-Jul	4550K	4487K	4681K	4710K
7/8	Initial Jobless Claims	3-Jul	460K	454K	472K	475K	7/22	Leading Indicators	JUN	-0.30%	-0.20%	0.40%	0.50%
7/8	Continuing Claims	26-Jun	4600K	4413K	4616K	4637K	7/22	RPX Composite 28dy YoY	MAY	--	2.14%	2.36%	--
7/8	Consumer Credit	MAY	-\$2.3B	-\$9.1B	\$1.0B	-\$13.0B	7/22	Existing Home Sales	JUN	5.10M	5.37M	5.66M	--
7/9	Wholesale Inventories	MAY	0.40%	0.50%	0.40%	0.20%	7/22	Existing Home Sales MoM	JUN	-9.90%	-5.10%	-2.20%	--
7/13	NFIB Small Business Optimism	JUN	91.2	89	92.2	--	7/26	New Home Sales	JUN	310K	330K	300K	267K
7/13	Trade Balance	MAY	-\$39.0B	-\$42.3B	-\$40.3B	--	7/26	New Home Sales MoM	JUN	3.30%	23.60%	-32.70%	-36.70%
7/14	MBA Mortgage Applications	9-Jul	--	-2.90%	6.70%	--	7/27	S&P/CS 20 City MoM% SA	MAY	0.20%	0.47%	0.44%	0.61%
7/14	Advance Retail Sales	JUN	-0.30%	-0.50%	-1.20%	-1.10%	7/27	S&P/CS Composite-20 YoY	MAY	3.85%	4.61%	3.81%	3.83%
7/14	Retail Sales Less Autos	JUN	-0.10%	-0.10%	-1.10%	-1.20%	7/27	Richmond Fed Manufact. Index	JUL	12	16	23	--
7/14	Retail Sales Ex Auto & Gas	JUN	0.00%	0.10%	-0.80%	-1.00%	7/27	Consumer Confidence	JUL	51	50.4	52.9	54.3
7/14	Business Inventories	MAY	0.20%	0.10%	0.40%	--	7/28	MBA Mortgage Applications	23-Jul	--	-4.40%	7.60%	--
7/14	Minutes of FOMC Meeting	19-May					7/28	Durable Goods Orders	JUN	1.00%	-1.00%	-1.10%	-0.70%
7/15	Producer Price Index (MoM)	JUN	-0.10%	-0.50%	-0.30%	--	7/28	Durables Ex Transportation	JUN	0.40%	-0.60%	0.90%	1.40%
7/15	PPI Ex Food & Energy (MoM)	JUN	0.10%	0.10%	0.20%	--	7/28	Fed's Beige Book	28-Jul				
7/15	Producer Price Index (YoY)	JUN	3.10%	2.80%	5.30%	--	7/29	Initial Jobless Claims	24-Jul	460K	457K	464K	468K
7/15	PPI Ex Food & Energy (YoY)	JUN	1.10%	1.10%	1.30%	--	7/29	Continuing Claims	17-Jul	4500K	4565K	4487K	4484K
7/15	Initial Jobless Claims	10-Jul	445K	429K	454K	458K	7/30	GDP QoQ (Annualized)	2Q A	2.60%	2.40%	2.70%	3.70%
7/15	Continuing Claims	3-Jul	4447K	4681K	4413K	4434K	7/30	Personal Consumption	2Q A	2.40%	1.60%	3.00%	1.90%
7/15	Empire Manufacturing	JUL	18	5.08	19.57	--	7/30	Core PCE QoQ	2Q A	1.00%	1.10%	0.70%	1.20%
7/15	Industrial Production	JUN	-0.10%	0.10%	1.20%	1.30%	7/30	Chicago Purchasing Manager	JUL	56	62.3	59.1	--
7/15	Capacity Utilization	JUN	74.10%	74.10%	74.70%	74.10%	7/30	U. of Michigan Confidence	JUL F	67	67.8	66.5	--
7/15	Philadelphia Fed.	JUL	10	5.1	8	--	7/30	NAPM-Milwaukee	JUL	57	66	59	--

SOURCE: Bloomberg, LLC

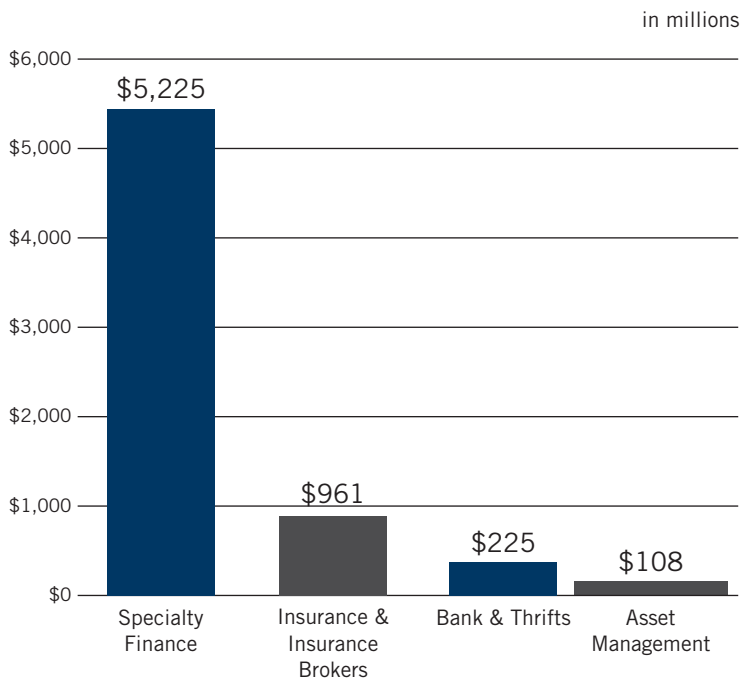
Economic Data Points - August 2010

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
8/2	ISM Manufacturing	JUL	54.5	55.5	56.2	--	8/13	U. of Michigan Confidence	AUG P	69	69.6	67.8	--
8/2	Construction Spending MoM	JUN	-0.50%	0.10%	-0.20%	-1.00%	8/13	Business Inventories	JUN	0.20%	0.30%	0.10%	0.20%
8/3	Personal Income	JUN	0.20%	0.00%	0.40%	0.30%	8/16	Empire Manufacturing	AUG	8	7.1	5.08	--
8/3	Personal Spending	JUN	0.10%	0.00%	0.20%	0.10%	8/16	Total Net TIC Flows	JUN	\$40.0B	-\$6.7B	\$17.5B	\$17.1B
8/3	PCE Deflator (YoY)	JUN	1.30%	1.40%	1.90%	2.10%	8/16	NAHB Housing Market Index	AUG	15	13	14	--
8/3	Factory Orders	JUN	-0.50%	-1.20%	-1.40%	-1.80%	8/16	Mortgage Delinquencies	2Q	--	--	10.06%	--
8/3	Pending Home Sales MoM	JUN	4.00%	-2.60%	-30.00%	-29.90%	8/16	MBA Mortgage Foreclosures	2Q	--	--	4.63%	--
8/3	Pending Home Sales YoY	JUN	--	-20.10%	-15.60%	--	8/17	Producer Price Index (MoM)	JUL	0.20%	--	-0.50%	--
8/3	Domestic Vehicle Sales	JUL	8.90M	8.94M	8.57M	--	8/17	PPI Ex Food & Energy (MoM)	JUL	0.20%	--	0.10%	--
8/3	Total Vehicle Sales	JUL	11.60M	11.56M	11.08M	--	8/17	Producer Price Index (YoY)	JUL	--	--	2.80%	--
8/4	MBA Mortgage Applications	30-Jul	--	1.30%	-4.40%	--	8/17	PPI Ex Food & Energy (YoY)	JUL	--	--	1.10%	--
8/4	Challenger Job Cuts YoY	JUL	--	-57.20%	-47.10%	--	8/17	Housing Starts	JUL	560K	--	549K	--
8/4	ADP Employment Change	JUL	30K	42K	13K	19K	8/17	Housing Starts MOM%	JUL	2.00%	--	-5.00%	--
8/4	ISM Non-Manf. Composite	JUL	53	54.3	53.8	--	8/17	Building Permits	JUL	585K	--	586K	583K
8/5	Initial Jobless Claims	31-Jul	455K	479K	457K	460K	8/17	Building Permits MOM%	JUL	0.30%	--	2.10%	--
8/5	Continuing Claims	24-Jul	4515K	4537K	4565K	4571K	8/17	Industrial Production	JUL	0.60%	--	0.10%	--
8/5	ICSC Chain Store Sales YoY	JUL	--	2.80%	3.00%	--	8/17	Capacity Utilization	JUL	74.60%	--	74.10%	--
8/6	Change in Nonfarm Payrolls	JUL	-65K	-131K	-125K	-221K	8/18	MBA Mortgage Applications	13-Aug	--	--	--	--
8/6	Change in Private Payrolls	JUL	90K	71K	83K	31K	8/19	Initial Jobless Claims	14-Aug	--	--	--	--
8/6	Unemployment Rate	JUL	9.60%	9.50%	9.50%	--	8/19	Continuing Claims	7-Aug	--	--	--	--
8/6	Consumer Credit	JUN	-\$5.3B	-\$1.3B	-\$9.1B	-\$5.3B	8/19	Leading Indicators	JUL	0.20%	--	-0.20%	--
8/10	NFIB Small Business Optimism	JUL	88	88.1	89	--	8/24	Existing Home Sales	JUL	--	--	5.37M	--
8/10	Nonfarm Productivity	2Q P	0.10%	-0.90%	2.80%	3.90%	8/24	Existing Home Sales MoM	JUL	--	--	-5.10%	--
8/10	Unit Labor Costs	2Q P	1.50%	0.20%	-1.30%	-3.70%	8/25	MBA Mortgage Applications	20-Aug	--	--	--	--
8/10	Wholesale Inventories	JUN	0.40%	0.10%	0.50%	--	8/24	Existing Home Sales MoM	JUL	--	--	-5.10%	--
8/10	FOMC Rate Decision	10-Aug	0.25%	0.25%	0.25%	--	8/25	Durable Goods Orders	JUL	--	--	-1.00%	-1.20%
8/11	MBA Mortgage Applications	6-Aug	--	0.60%	1.30%	--	8/25	Durables Ex Transportation	JUL	--	--	-0.60%	-0.90%
8/11	Trade Balance	JUN	-\$42.1B	-\$49.9B	-\$42.3B	-\$42.0B	8/25	New Home Sales	JUL	--	--	330K	--
8/12	Initial Jobless Claims	7-Aug	465K	484K	479K	482K	8/25	New Home Sales MoM	JUL	--	--	23.60%	--
8/12	Continuing Claims	31-Jul	4535K	4452K	4537K	4570K	8/26	Initial Jobless Claims	21-Aug	--	--	--	--
8/13	Consumer Price Index (MoM)	JUL	0.20%	0.30%	-0.10%	--	8/26	Continuing Claims	14-Aug	--	--	--	--
8/13	CPI Ex Food & Energy (MoM)	JUL	0.10%	0.10%	0.20%	--	8/27	GDP QoQ (Annualized)	2Q S	--	--	2.40%	--
8/13	Consumer Price Index (YoY)	JUL	1.20%	1.20%	1.10%	--	8/27	Personal Consumption	2Q S	--	--	1.60%	--
8/13	CPI Ex Food & Energy (YoY)	JUL	0.90%	0.90%	0.90%	--	8/31	S&P/CS 20 City MoM% SA	JUN	--	--	0.47%	--
8/13	Advance Retail Sales	JUL	0.50%	0.40%	-0.50%	-0.30%	8/31	S&P/CS Composite-20 YoY	JUN	--	--	4.61%	--
8/13	Retail Sales Less Autos	JUL	0.30%	0.20%	-0.10%	--	8/31	Consumer Confidence	AUG	--	--	50.4	--
8/13	Retail Sales Ex Auto & Gas	JUL	0.10%	-0.10%	0.10%	0.20%	8/31	Minutes of FOMC Meeting	31-Aug				

SOURCE: Bloomberg, LLC

M&A Transaction Update

Announced Transactions - July 2010



SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - July 2010

Insurance & Insurance Brokerage	26
Bank & Thrift	16
Asset Management & Broker/Dealer	11
Specialty Finance	7

SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - 2009 YTD

Insurance & Insurance Brokerage	136
Asset Management & Broker/Dealer	74
Bank & Thrift	73
Specialty Finance	37

SOURCE: SNL Financial, Bloomberg, Factiva

Financial Deal Alert

Hovde Financial is pleased to announce that on July 7, 2010, its client, Kansas City, Missouri-based Dickinson Financial Corporation, agreed to sell 38 branch locations in Kansas and Missouri as well as certain deposits and performing loans of its subsidiary, Bank Midwest, NA, to Boston, Massachusetts-based NBH Holdings Corporation. This announced transaction is the largest branch deal in 2010 and the second largest in the past eight years in the U.S. in terms of deposits sold.

Top Financial Advisors in Bank and Thrift Transactions

Last Five Years, Sell-Side Advisory Transactions

Rank	Firm	# of Deals
1	Keefe, Bruyette & Woods, Inc.	97
1	Sandler, O'Neill & Partners, L.P	97
3	Hovde Financial	71
4	Howe Barnes Hoefer & Arnett, Inc.	50
5	Stifel, Nicolaus & Company, Inc.	36
6	Sheshunoff & Co. Investment Banking LP	27
7	Capital Corporation, LLC	14
7	Carson Medlin Company	14
7	Professional Bank Services Inc.	14
10	Austin Associates, LLC	13

SOURCE: SNL Financial (data from 7/30/2005-7/30/2010)

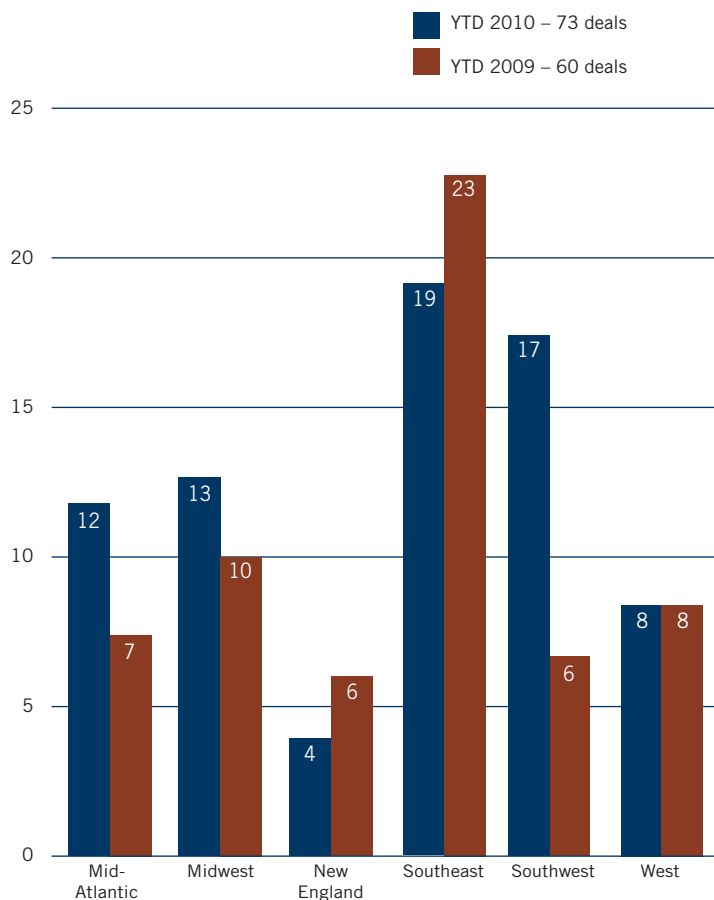
Bank & Thrift Transactions - July 2010

Buyer	Buyer		Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
	State	Target						
Investor group		Bannister Bancshares, Inc.	MO	7/1/10	NA	NA	NA	NA
Investor group	FL	Sunrise Bank	FL	7/1/10	NA	NM	83.57	NM
Allcorp, Inc.	AR	Community State Bancshares, Inc.	AR	7/7/10	NA	NA	NA	NA
Farmers Enterprises, Inc.	KS	First National Bank & Trust Company in Larned	KS	7/7/10	NA	NA	NA	NA
Investor group		Sun Bancorp, Inc.	NJ	7/7/10	NA	NA	NA	NA
NBH Holdings Corp.	MA	Bank Midwest, NA operations	MO	7/7/10	NA	NA	NA	NA
BancFirst Corporation	OK	Union National Bancshares, Inc.	OK	7/13/10	NA	NA	NA	NA
HomeTrust Bank	NC	Cherryville Federal Savings & Loan Association	NC	7/14/10	NA	NA	NA	NA
Florida Bank Group, Inc.	FL	Anderen Financial, Inc.	FL	7/14/10	NA	NA	NA	NA
Grandpoint Bank	CA	First Commerce Bancorp	CA	7/14/10	43.2	45.00	130.43	3.85
People's United Financial, Inc.	CT	LSB Corporation	MA	7/15/10	95.9	20.79	152.51	8.75
People's United Financial, Inc.	CT	Smithtown Bancorp, Inc.	NY	7/15/10	60.1	NM	50.76	NM
TowneBank	VA	Bank of Currituck	NC	7/16/10	10.0	NA	NA	NA
SCJ, Inc.	CA	Professional Business Bank	CA	7/20/10	NA	NA	NA	NA
Liberty Bank	CT	Connecticut River Community Bank	CT	7/23/10	16.1	NM	114.73	2.10
Shay Investment Services, Inc.	FL	Texas Country Bank	TX	7/23/10	NA	NA	NA	NA

SOURCE: SNL Financial

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	\$241	106.93	NA	5.02
Midwest	\$149	95.04	12.3	2.88
New England	\$290	147.79	23.4x	7.03
Southeast	\$243	76.58	NA	5.26
Southwest	\$67	129.88	26.3	14.13
West	\$68	100.77	42.8	6.42
Total	\$1,057	102.97	27.9	6.98

SOURCE: SNL Financial

Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
1Q2008	\$5,093	189.2	26.9	12.4
2Q2008	\$1,884	176.6	29.3	8.9
3Q2008	\$27,195	152.5	25.9	11.4
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	\$268	108.4	20.0	5.6
1Q2010	\$256	107.4	31.1	6.0
2Q2010	\$575	98.3	21.5	8.5
3Q2010	\$225	106.4	32.9	4.9

SOURCE: SNL Financial

Insurance and Insurance Brokerage Transactions - July 2010

Buyer	Target	Announced	DV (\$MM)
Brown & Brown, Inc.	Commonwealth Insurance Group LLC	7/1/10	NA
First Mercury Financial Corporation	Valiant Insurance Group, Inc.	7/1/10	55
Hilb Group LLC	EAI & JJJ Inc.	7/1/10	NA
Minnesota Mutual Companies Inc.	Ochs, Inc.	7/1/10	NA
Mountain West Insurance & Financial Services, LLC	Moffat Insurance Agency, LLC	7/1/10	NA
Wells Fargo & Company	Kinney Agency, Inc.	7/1/10	NA
Brown & Brown, Inc.	Eberhart & Company Insurors, Inc.	7/2/10	NA
Brown & Brown, Inc.	Meridian Group of New York, Inc.	7/2/10	NA
Hub International Limited	Ehrman & Associates, Inc.	7/6/10	NA
Maiden Holdings, Ltd.	GMAC International Insurance Services, Ltd.	7/6/10	NA
Doctors Company, An Interinsurance Exchange	American Physicians Capital, Inc.	7/7/10	396.4
Hub International Limited	Maple Leaf Insurance Retail book of business	7/7/10	NA
Cooper Gay (Holdings) Ltd	Swett & Crawford Group Inc.	7/9/10	NA
Molina Healthcare, Inc.	Abri Health Plan, Inc.	7/12/10	16.0
Hanover Insurance Group, Inc.	ICW Group surety division	7/14/10	NA
Insurance Office of America	Smith Gatta Gelok, Inc.	7/14/10	NA
Markel Corporation	Aspen Holdings, Inc.	7/14/10	182.3
Donegal Group Inc.	Michigan Insurance Company	7/15/10	39.0
Investor group	NYMAGIC, INC.	7/15/10	231.8
Ryan Specialty Group, LLC	Chartwell Independent Insurance Brokers, LLC	7/19/10	NA
MDW Insurance Group, Inc.	Genesis Risk Advisors, LLC	7/27/10	NA
Comprehensive Care Corporation	CompCare de Puerto Rico, Inc.	7/28/10	NA
MBIA Inc.	Channel Re Holdings Ltd.	7/28/10	40.0
Markel Corporation	Le Centaure	7/28/10	NA
Assurance Investment Partners	Benefits Solutions, LLC.	7/29/10	NA
Arthur J. Gallagher & Co.	Specialised Broking Associates Pty Ltd	7/30/10	NA

SOURCE: Factiva, AM Best

Asset Management/Broker-Dealer Transactions - July 2010

Buyer	Target	Announced	DV (\$MM)
Heritage Financial Consultants, LLC	Insight Financial Group, LLC	7/1/10	NA
International Assets Holding Corporation	Hanley Group of companies	7/2/10	7.5
Invesco Ltd.	Morgan Stanley Asset & Investment Trust Management Co., Limited	7/6/10	NA
Investor group	CPE businesses	7/13/10	NA
LPL Investment Holdings Inc.	National Retirement Partners, Inc.	7/14/10	NA
Aspiriant, LLC	Deloitte Investment Advisors LLC	7/19/10	NA
Hewitt Associates, Inc.	Ennis Knupp & Associates Inc	7/20/10	NA
Wilmer Cutler Pickering Hale and Dorr, LLP	H&S Financial Advisors LLC	7/20/10	NA
SunGard Data Systems Inc.	Fox River Execution Technology, LLC	7/22/10	NA
Knight Capital Group, Inc.	Astor Asset Management, L.L.C.	7/26/10	20.0
Nuveen Investments, Inc.	First American Funds	7/29/10	80.0

SOURCE: Factiva, Bloomberg

Specialty Finance Transactions - July 2010

Buyer	Target	Announced	DV (\$MM)
Fortress Investment Group LLC	CW Financial Services LLC	7/1/10	NA
OAO Vostochny Express Bank	City Mortgage Bank	7/2/10	NA
Standard Chartered PLC	GE Commercial Financing (Singapore) Ltd.	7/12/10	NA
Grupo Aval Acciones y Valores S.A.	BAC-Credomatic GECE, Inc.	7/15/10	1900
Farmers & Merchants Bancorp, Inc.	Gorman & Gorman Residential Mortgage Services	7/19/10	NA
General Motors Corporation	AmeriCredit Corp.	7/21/10	3325.4
Kelso & Companies, Inc.	Cronos Ltd	7/28/10	NA

SOURCE: Factiva, Bloomberg, Reuters