



Hovde

Financial Institutions
Monthly Overview

Capital Markets
Economic Data Review
M&A Statistics

May 2009

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“Human kind cannot bear very much reality.”
—T.S. Eliot

Coming off of a disastrous fourth quarter of 2008, the market has been celebrating what appeared to be an overall improvement in bank earnings during the first quarter of 2009. Unfortunately, while some sell-side analysts, market pundits, and management teams are touting the lift in reported earnings as an initial sign of a turnaround in the operating environment for banks and thrifts, we must point out that first quarter results were really not what they appeared to be. The reality is that the knee-jerk euphoria surrounding first quarter earnings was, for the most part, unwarranted when looking more closely at the underlying quality of the earnings that were reported. On top of the benefits from a number of seasonal factors, many larger financial institutions were, in essence, able to “manufacture” improved short-term results and distort the true earnings picture through a combination of accounting changes and other one-time or unsustainable items, which we will discuss further below. Moreover, what was grossly overlooked was the fact that first quarter earnings were actually still negative for the vast majority of banks and thrifts—particularly at the regional and community level—and that asset quality continued to deteriorate at an alarming rate industry wide. Consequently, we feel that investors must face the reality that this ongoing credit cycle still has plenty of room to run and that most of these institutions are not out of the woods yet.

To begin with, while FDIC-insured institutions reported a combined net profit of \$7.6 billion for the first quarter of 2009, banks with more than \$10 billion in assets accounted for nearly \$7 billion of that total. Although this is obviously a significant improvement from the mind-numbing \$37 billion loss in the fourth quarter of 2008, the aggregate results still declined by \$11.7 billion, or more than 60%, from the first quarter of 2008. Earnings weakness continued to resonate across the board as more than one in five institutions reported a net loss for the quarter, and nearly 60% reported lower net income on a year-over-year basis. As total earnings swung back into positive territory following a horrific final quarter of 2008, the average return on assets (ROA) inched into the black

to 0.22%, from -0.77%—but it is still less than half of the 0.58% return the industry generated a year earlier and well below the 1.20% figure from the first quarter of 2007.

Worse still, the underlying earnings drivers were not as strong as they appeared. For instance, although net interest margins (NIMs) showed a surprising uptick to a weighted-average of 3.39%—versus 3.34% in the previous quarter and 3.33% a year earlier—the reality behind the numbers is that most of the improvement came from larger institutions, as two-thirds of all institutions reported lower NIMs compared to the fourth quarter of 2008, and 55% had lower NIMs on a year-over-year basis. Moreover, the margin strength exhibited by the large banks will likely prove fleeting, as the increase was most likely driven by a funding shift to subsidized-cost Temporary Liquidity Guarantee Program (TLGP) debt issuance and the spread component of fixed-income trading revenues, which are always seasonally the strongest in the first quarter.

In fact, while non-interest trading revenues rose by \$35 billion sequentially, more than 95% of that increase was attributed to the three largest U.S. banks. In addition, revaluation adjustments on assets and liabilities measured at fair value accounted for nearly \$5.5 billion of the improved linked-quarter earnings performance—most of which was driven by widening credit spreads on the debt of the big banks, which allowed them to write down their liabilities without actually reducing the amount of their debt outstanding or the cost of their debt service requirements. We will elaborate on both of these topics further below.

And, while gains from the sale or securitization of residential mortgages accounted for a \$10 billion increase in revenues versus the prior quarter, it is unlikely, in our opinion, that this level of mortgage activity is sustainable. In short, the underlying quality of first-quarter revenue growth was low, in our assessment, particularly among the elements that comprise the core earnings power of the typical regional or community bank.

Likewise, on the expense side, the greatest source of improvement was not in the operating cost structures of

the banks, but rather from a reduction in goodwill write-downs. While the industry continued to write off past purchase premiums, to the tune of nearly \$5 billion during the first quarter, that actually represented an approximate \$18 billion increase in pretax earnings versus the previous quarter (when most banks were required by their auditors to test their goodwill for impairment). However, not only was this huge “improvement” in reported earnings not truly indicative of better *operating* results, it did not translate into a single dime of tangible capital generation.

Still, in tandem with the “improved” quarterly earnings and drastically reduced sell-side estimates—after several quarters of unrealistically high expectations—50% of the 350 largest banking companies with sell-side coverage were able to either meet or exceed their consensus EPS estimates, up from only 25% in the previous quarter. For that matter, because most of the one-time earnings windfalls in the quarter were more likely to augment the results of those banks that were subject to the government stress tests, the rate of upside surprises was much greater for that group, with 71% of companies exceeding estimates versus only 14% during the fourth quarter. Furthermore, when examining the next tier of banks (i.e., those with assets ranging from \$15 billion up to the \$100 billion stress-test cut-off) only 24% of the companies surprised to the upside.

As it pertains to those larger banks that did meet or beat lowered estimates, it is important to understand, as we highlighted earlier, that many of those institutions were able to post improved earnings results in the first quarter only through a series of one-time or non-recurring items. Not surprisingly, these “better than expected” results conveniently came in advance of the government’s stress tests. Among the most prevalent unsustainable items that banks relied on in the quarter, which we believe will be difficult—if not impossible—to repeat, were the following:

- **Historically, banking trends are always seasonally stronger during the first quarter.**

- Consumer credit quality is always historically better in the first quarter, as Americans receive the bulk of their

tax refunds and, as a result, are able to temporarily get caught up on many of their bills and past-due loans (e.g., mortgages, auto loans, credit cards). This dynamic should have been even more pronounced this year as tax rebates were an estimated 15% higher than in typical years.

- The spring home-selling season, which impacts the first and second quarters, typically allows builders, who have fallen behind on their bank loans, to pay down some of their outstanding debts and, in some cases, even enable them to draw down on committed funding in order to begin “vertical construction” on a new group of lots.
- In turn, the seasonally-better credit metrics typically lead to lower loan loss provisions and higher earnings in the first quarter than economic conditions might otherwise warrant—particularly when they come on the heels of “kitchen-sink” fourth quarters, as we just experienced at the end of 2008.
- As we alluded to above, fixed income trading revenues are stronger during the first quarter as corporate clients typically try to execute the lion’s share of their annual new issuance needs, which, in turn, drives up client swap activity and secondary market trading volume. Also, the government’s efforts to hold down long rates created a window of opportunity in the first quarter for refinancing activity for Corporate America.
- The public funds business also shows strength in the first quarter, as municipalities park tax receipts in liquid accounts before tapping into them for budgetary purposes.

- **Changes in accounting standards clearly benefited reported results and capital levels.**

- *FAS 124 amendment.* To the extent management chalks up the decline in a security’s market value to illiquidity, companies can transfer previously recognized other-than-temporary-impairment (OTTI) losses to other comprehensive income (OCI), thereby increasing their regulatory capital ratios. It is also worth noting that a handful of banks have started to

quietly exclude OCI losses from the figure they report in their earnings press releases and quarterly filings as tangible common equity (TCE).

- *Relaxation of mark-to-market rules under FAS 157.* In essence, the Financial Accounting Standards Board's (FASB) updated guidance allows banks to shift toxic securities from Level 2 asset categorizations—which require valuations based on “observable market data,” such as asset sales by competitors—to Level 3 asset categorizations, which tend to involve valuations based on often-faulty internal cash flow models or management estimates given the illiquid markets for certain securities. Consequently, financial institutions are now able to mark many of these securities up to higher carrying values, or at least avoid writing them down to more realistic market valuations.
- *FAS 160 amendment.* Allows non-controlling interest (e.g., minority interests) in a subsidiary to be included within equity. While the majority of banks complied with the spirit of this amendment by disclosing non-controlling interests separate from common shareholder equity, a handful of companies disclosed only total equity—hoping investors would mistakenly believe there was an actual increase in the equity base.
- *FAS 157 gains from increased risk of default.* As the fixed-income and CDS markets became increasingly concerned about the banks' solvency, the widening of credit spreads on the outstanding debt issued by the big banks allowed them to mark down their own liabilities and book a paper gain to reflect the growing discount at which their debt was trading. However, gains booked from investors' trepidation over holding a company's bonds are not a source of true capital generation as would be the case if the bank in question had actually retired that debt at the lower price—thereby creating real value for its shareholders. In fact, the recent reversal in credit spreads will likely lead to large mark-to-market losses in the second quarter as those same institutions have to write their debt back up to values closer to the amount that they actually owe bondholders.
- *Purchase accounting treatment for distressed mergers.* In the government's haste last year to prevent the outright

failures of four of the 25 largest financial companies, it allowed acquiring entities to take huge upfront write-offs for tax purposes. However, until such loss estimates become reality, the banks will derive “income” from the estimated future cash flows from these assets. In the first quarter, the earnings contribution at four large banks from the accretable yield on such deals totaled nearly \$3 billion. In addition, because the acquirers recognized all of the expected future losses associated with the distressed companies they were buying at the time of acquisition, they also will not have any provision expense on those assets unless at some point in the future those estimated charges prove to have been too optimistic.

- **Heightened mortgage banking activity.**

- Despite the continuation of the refinancing boom into the beginning of the second quarter, the significantly higher origination volumes and sales margins which banks and thrifts have enjoyed as a result of the government's extraordinary efforts to drive down the yield on the 10-year Treasury are simply not sustainable. Activity has already dropped off a bit, and investors should expect revenues to eventually plummet by the third quarter. At some point soon, everyone who actually had the ability to refinance at a lower rate will have already done so and, because interest rates have moved so much higher over the past few weeks, many of those who waited too long to refinance have now missed the refinancing window.

- **Change in bank reporting periods.**

- Some of the bulge-bracket broker/dealers conveniently changed their first quarter reporting periods from a December to February time frame to a calendar quarter beginning in 2009. As a result, these companies were able to dump a disproportionate amount of their losses into a “stub month” in December, which conveniently was neither included in fiscal 2008 nor calendar 2009. Consequently, they could report much stronger net gains in the new January-to-March quarter.

While some of these factors generated a true, albeit one-time, boost to capital, the accounting gimmickry borne

of desperation and endorsed by a FASB under duress, in our opinion, amounts to nothing more than “smoke and mirrors” tactics which were utilized by many of the banks to provide investors and the market with a false sense of reality. Among other things, the rule changes will make it more difficult for investors to compare the health of the industry with past cycles and will mask some of the core weaknesses for the next two or three quarters. However, by then, it will be too late for most companies to paper over their problems, and the auditors will be faced with the task of reinstating valuation discipline.

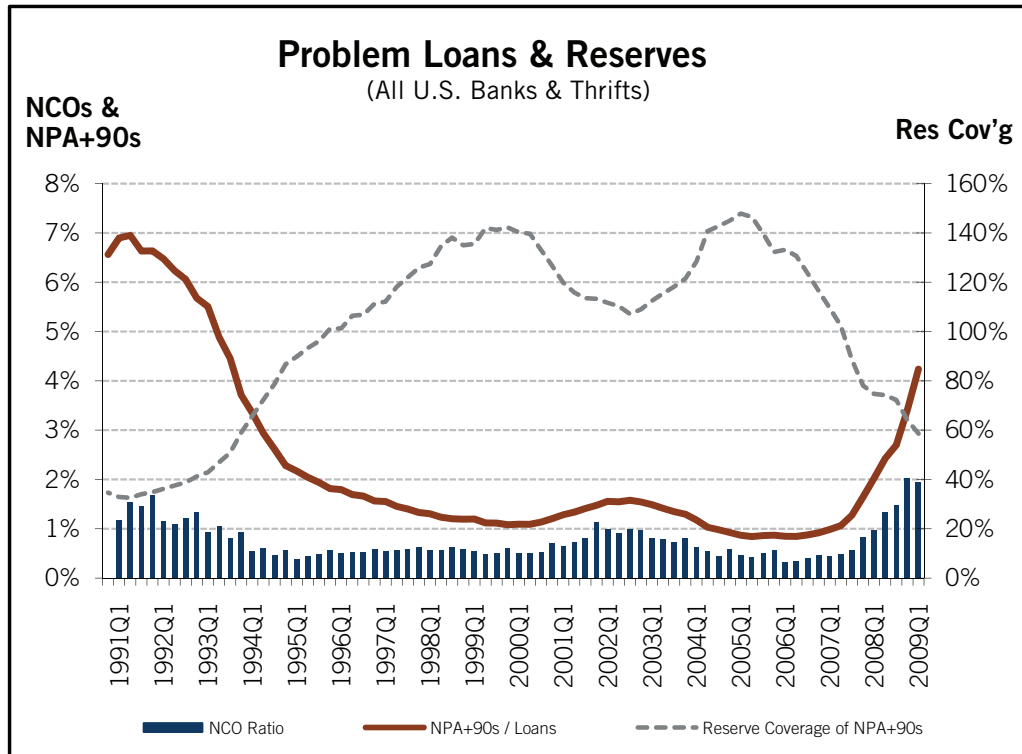
Moreover, despite the “improved” reported earnings, the bank and thrift industry remains under intense pressure as credit trends are continuing to deteriorate at an alarming rate. Although this was the first time in nine quarters that net charge-offs (NCOs) did not increase on a sequential basis—falling slightly to \$37.8 billion in the first quarter from \$38.5 billion in the fourth quarter—they nearly doubled from the \$19.6 billion total from a year earlier. And, despite the NCO ratio ticking down fractionally to 1.94% from 1.95% in the fourth quarter—which was the highest rate in 25 years—they were padded by the seasonal credit factors we mentioned above, which won’t be as beneficial in future quarters. Moreover, the loss content of nonperforming assets (NPAs) will only increase the longer the banks wait to face reality as real estate prices continue to fall.

Worse still, the continued high level of NCOs did not curtail the growth of nonperforming assets and 90-day delinquencies (NPAs+90s) in the banking and thrift industry as they increased 23.5% (or \$62 billion) from the previous quarter. And, while 30-89 day delinquencies did not rise appreciably quarter-over-quarter (they were essentially flat at \$158 billion, rising only 0.3%), this does not mean that banks and thrifts experienced any improvement in credit quality—it simply means that the early-stage problem loan “bucket” refilled as fast as other past due loans were migrating into the more severe stages of delinquency and default. Essentially, despite the high rate of charge-offs, NPA+90s still rose from 3.3% of loans to 4.2%, and the early-stage delinquencies still housed another 2% of past-due loans despite the larger-than-

normal tax refund checks mailed out this year and the seasonal increase in home sales.

Interestingly, while overall early stage delinquencies did not appreciably rise from the fourth quarter, there was noticeable deterioration when one considers the seasonal benefit of tax refund season and looks more closely at what was reported for each of the individual loan categories. Although every major consumer bucket saw 30-89 day delinquencies decline slightly on a sequential basis from the previous quarter, overall consumer NPA+90s still increased an average 25.7% across the board. Essentially, the tax refund season appears to have had a mildly positive impact on consumers who were only modestly past due and were able to at least temporarily become current on some of their debts, while those who were more severely past due continued to migrate into the 90+ bucket or onto nonperforming status. More importantly, though, when turning to the commercial side of things, there was significant deterioration in both the level of reported NPAs+90s and early stage delinquencies. In fact, there were double-digit increases in both 30-89 day delinquencies and NPA+90s in nearly every commercial loan category. And, although the rate of growth in problem construction loans seemed to ease somewhat—likely due to the impact of the spring home-selling season—the most alarming rate of increase occurred in income property commercial mortgages, which exhibited an astounding 40% increase in both 30-89 day delinquencies and NPA+90s.

While financial institutions continued to add to their reserves, setting aside \$60.9 billion in loan loss provisions during the quarter and more than \$125 billion in the last six months, they are *still* not building reserves fast enough in order to keep pace with nonperformers. In fact, despite the brisk pace of provisioning, the ratio of reserves to NPA+90s fell to 66.5% in the first quarter—down from nearly 75% the previous quarter—and is now at its lowest point in 17 years. Not surprisingly, reserve coverage at publicly traded banks was worse, falling to 63% from 69% in the previous quarter. Even more disconcerting is the fact that the reserve coverage of all noncurrent loans at publicly-traded companies dropped to 42% when you include 30-89 day delinquencies.



Source: SNL Financial

As expected, the rapid asset deterioration plaguing bank and thrifts' balance sheets continued to take its toll across the industry as the number of banks on the FDIC's problem list rose to 305—the highest level since 1994—from 252 in the previous quarter, with total assets at these troubled institutions climbing 38% during the quarter to \$220 billion. However, as we have discussed in previous quarterly earnings pieces, we believe a much more accurate indicator of the stress that is enveloping the banking industry that we prefer to follow is the “Texas” ratio (NPA+90s as a percentage of tangible equity and reserves). In our experience, when a bank's ratio of NPA+90s exceeds half of its total tangible equity and reserves, the likelihood of failure rises dramatically. **As of the end of the first quarter, there are now 914 banks and thrifts in the U.S. with a “Texas” ratio above 50%—a 24% increase from the previous quarter—and 266 with a ratio greater than 100%.** Consequently, we expect this deterioration in credit quality on banks' balance sheets to continue to propel the number of bank failures in 2009—now at 36 versus only 25 for all of last year—which will result in the greatest number of failures since the early 1990's.

The bottom line is that we have already seen the best quarter of bank results in 2009 and we expect earnings and the overall credit environment to return to a much more brutal reality for the remainder of the year as the housing market continues to erode, commercial real estate values head downward, unemployment continues to rise, and the economy struggles to find any even ground. Again, it is important for investors not to buy into the illusion of positive earnings conjured up by larger institutions, but rather to understand how they manufactured “new and improved” earnings and will continue to pull every lever in coming quarters to dress up their results. While the recent capital raises facilitated by the so-called “green shoots” and the manufactured earnings have alleviated some of the near-term stress for the few banks that were able to capitalize on the market's increased risk appetite, the reality is that the vast majority of banks and thrifts are still on very shaky ground and that asset deterioration—the most vital determinant of a financial institution's health—will persist throughout this year and well into 2010.

Federal Reserve Aggregate Bank Data

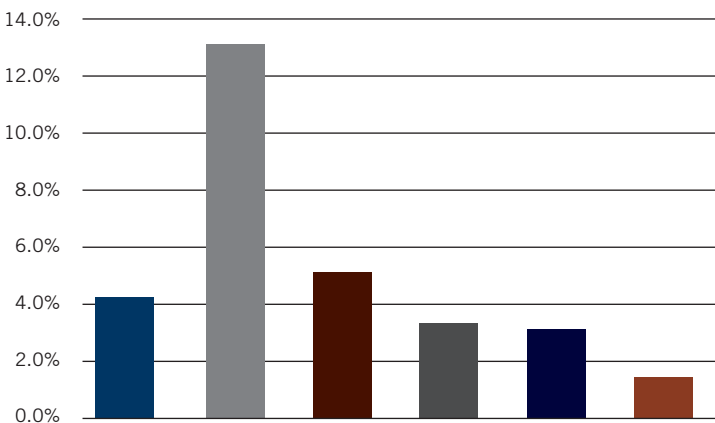
	4/2008	8/2008	9/2008	10/2008	11/2008	12/2008	1/2009	2/2009	3/2009	4/2009	MoM	YoY
ASSETS												
Securities												
Secs in Bank Credit	2,531	2,476	2,532	2,718	2,726	2,766	2,739	2,660	2,706	2,677	-1.0%	5.8%
Treasury & Agency	1,110	1,129	1,155	1,227	1,261	1,256	1,276	1,253	1,274	1,265	-0.7%	14.0%
Other	1,420	1,347	1,377	1,490	1,465	1,510	1,463	1,407	1,432	1,412	-1.4%	-0.6%
Loans and Leases												
C&I	1,491	1,514	1,537	1,602	1,596	1,584	1,574	1,562	1,543	1,522	-1.4%	2.1%
Real Estate	3,650	3,642	3,666	3,792	3,784	3,787	3,801	3,824	3,831	3,838	0.2%	5.1%
Consumer	821	845	852	870	876	882	892	901	893	881	-1.3%	7.3%
Other	647	630	655	678	645	660	626	623	628	622	-0.9%	-3.8%
Other Assets	1,013	1,022	1,043	1,091	1,132	1,146	1,107	1,108	1,105	1,054	-4.7%	4.0%
Total Assets	11,087	11,058	11,333	11,947	12,100	12,311	12,229	12,051	12,123	12,070	-0.4%	8.9%
LIABILITIES												
Deposits												
Transaction	636	600	640	679	704	764	703	691	698	726	4.1%	14.2%
Nontransaction	6,220	6,314	6,432	6,448	6,360	6,498	6,657	6,653	6,685	6,632	-0.8%	6.6%
Large time	2,081	2,131	2,161	2,066	1,938	1,984	1,993	1,927	1,876	1,884	0.4%	-9.5%
Other	4,139	4,183	4,271	4,383	4,422	4,514	4,664	4,726	4,809	4,749	-1.3%	14.7%
Borrowings	2,294	2,357	2,397	2,619	2,600	2,492	2,444	2,463	2,497	2,449	-1.9%	6.8%
Other Liabilities	743	673	715	806	845	939	847	771	791	749	-5.4%	0.8%
Total Liabilities	9,923	9,852	10,122	10,733	10,910	11,123	11,050	10,831	10,889	10,840	-0.4%	9.2%
Residual (assets less liabilities)	1,164	1,206	1,211	1,215	1,190	1,188	1,179	1,220	1,235	1,230	-0.4%	5.7%

all values in \$ billions

SOURCE: Federal Reserve Documents

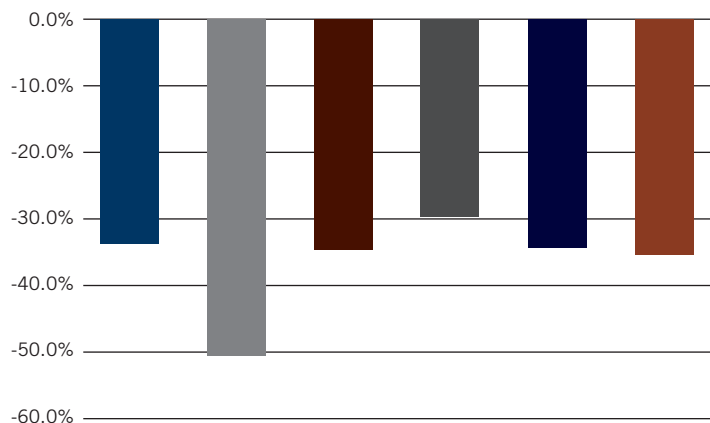
Major Market Index Performance

May 2009



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

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

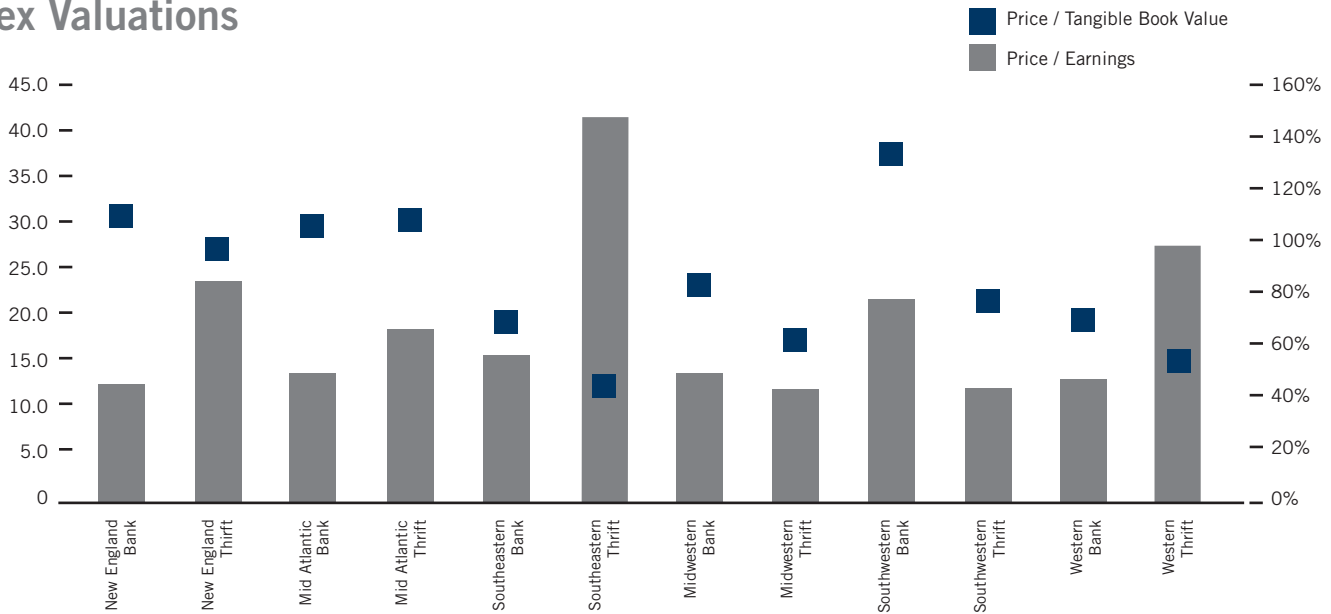
	6/2008	7/2008	8/2008	9/2008	10/2008	11/2008	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009
Dow Jones	-10.2%	0.2%	1.5%	-6.0%	-14.1%	-5.3%	-0.6%	-8.8%	-11.7%	7.7%	7.3%	4.1%
S&P Financial	-18.7%	6.8%	-1.3%	-5.2%	-22.7%	-18.7%	-0.7%	-26.5%	-18.4%	17.7%	22.2%	13.1%
S&P 500	-8.6%	-1.0%	1.2%	-9.1%	-16.9%	-7.5%	0.8%	-8.6%	-11.0%	8.5%	9.4%	5.3%
NASDAQ	-9.1%	1.4%	1.8%	-11.6%	-17.7%	-10.8%	2.7%	-6.4%	-6.7%	10.9%	12.3%	3.3%
Russell 2000	-7.8%	3.6%	3.5%	-8.1%	-20.9%	-12.0%	5.6%	-11.2%	-12.3%	8.7%	15.3%	2.9%
NASDAQ Bank	-17.5%	9.6%	3.8%	4.0%	-7.3%	-8.8%	-1.2%	-21.8%	-11.9%	8.1%	5.1%	1.7%

SOURCE: Bloomberg, LLC

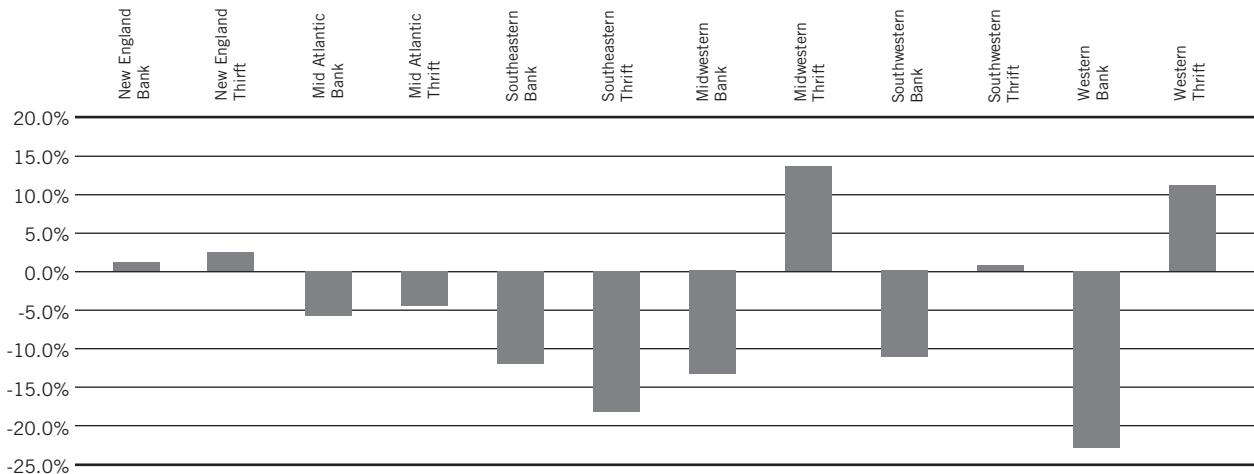
Bank and Thrift Index Valuations

		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	10.9	12.5	115%	107%	171%	112%	7.8%	1.0%	-24.0%	20
	Thrift	25.1	24.1	92%	86%	118%	97%	4.2%	3.6%	-18.9%	22
Mid Atlantic	Bank	15.3	14.7	97%	93%	193%	109%	4.6%	-5.2%	-33.3%	88
	Thrift	16.9	19.6	115%	96%	153%	110%	5.0%	-4.5%	-23.1%	54
Southeastern	Bank	9.0	15.3	66%	59%	100%	68%	3.5%	-12.3%	-42.7%	117
	Thrift	25.3	42.8	67%	49%	75%	58%	-2.6%	-18.2%	-49.5%	11
Midwestern	Bank	14.8	14.5	129%	61%	179%	86%	1.0%	-13.6%	-40.6%	86
	Thrift	14.9	11.7	146%	59%	151%	61%	4.0%	14.1%	-40.2%	43
Southwestern	Bank	10.9	21.9	115%	100%	165%	135%	4.5%	-10.4%	-33.1%	20
	Thrift	8.4	12.3	88%	79%	90%	79%	-7.8%	0.9%	-28.7%	8
Western	Bank	7.4	14.1	90%	54%	140%	68%	1.2%	-23.1%	-48.9%	64
	Thrift	14.9	27.3	69%	55%	75%	57%	1.0%	11.9%	-39.5%	12

Index Valuations



YTD Price Performance



Economic Data Points - May 2009

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
5/1	U. of Michigan Confidence	APR F	61.9	65.10	61.90	--	5/15	Consumer Price Index (YoY)	APR	-0.60%	-0.70%	-0.40%	--
5/1	Factory Orders	MAR	-0.60%	-0.90%	1.80%	0.70%	5/15	CPI Ex Food & Energy (YoY)	APR	1.80%	1.90%	1.80%	--
5/1	ISM Manufacturing	APR	38.4	40.1	36.3	--	5/15	CPI Core Index SA	APR	--	218.59	218.04	--
5/1	ISM Prices Paid	APR	34	32	31	--	5/15	Consumer Price Index NSA	APR	213.31	213.24	212.71	--
5/1	Total Vehicle Sales	APR	9.8M	9.3M	9.9M	--	5/15	Industrial Production	APR	-0.60%	-0.50%	-1.50%	-1.70%
5/1	Domestic Vehicle Sales	APR	7.1M	7.0M	7.1M	--	5/15	Capacity Utilization	APR	68.80%	69.10%	69.30%	69.40%
5/4	Pending Home Sales MoM	MAR	0.00%	3.20%	2.10%	2.00%	5/15	U. of Michigan Confidence	MAY P	67	67.9	65.1	--
5/4	Construction Spending MoM	MAR	-1.60%	0.30%	-0.90%	-1.00%	5/19	Housing Starts	APR	520K	458K	510K	525K
5/5	ISM Non-Manf. Composite	APR	42.2	43.7	40.8	--	5/19	Building Permits	APR	530K	494K	513K	511K
5/7	Nonfarm Productivity	1Q P	0.60%	0.80%	-0.40%	-0.60%	5/20	Minutes of April 29 FOMC Meeting					
5/7	Initial Jobless Claims	2-May	635K	601K	631K	635K	5/21	Initial Jobless Claims	16-May	625K	631K	637K	643K
5/7	Continuing Claims	25-Apr	6350K	6351K	6271K	6295K	5/21	Continuing Claims	9-May	6650K	6662K	6560K	6587K
5/7	ICSC Chain Store Sales YoY	APR	-1.00%	0.70%	-2.10%	--	5/26	S&P/CaseShiller Home Price Ind	MAR	--	139.99	143.17	143.1
5/7	Consumer Credit	MAR	-\$4.0B	-\$11.1B	-\$7.5B	-\$8.1B	5/26	S&P/CS Composite-20 YoY	MAR	-18.30%	-18.70%	-18.63%	-18.67%
5/8	Change in Nonfarm Payrolls	APR	-600K	-539K	-663K	-699K	5/26	S&P/Case-Shiller US HPI	1Q	140.70	128.80	139.10	139.20
5/8	Unemployment Rate	APR	8.90%	8.90%	8.50%	--	5/26	S&P/Case-Shiller US HPI YOY%	1Q	-18.70%	-19.10%	-18.20%	-18.30%
5/8	Change in Manufact. Payrolls	APR	-155K	-149K	-161K	-167K	5/26	Consumer Confidence	MAY	42.60	54.90	39.20	40.80
5/8	Average Hourly Earnings MoM	APR	0.20%	0.10%	0.20%	--	5/27	Existing Home Sales	APR	4.66M	4.68M	4.57M	4.55M
5/8	Average Hourly Earnings YoY	APR	3.30%	3.20%	3.40%	--	5/27	Existing Home Sales MoM	APR	2.00%	2.90%	-3.00%	-3.40%
5/8	Wholesale Inventories	MAR	-1.00%	-1.60%	-1.50%	-1.70%	5/27	House Price Purchase Index QoQ	1Q	--	-0.55%	-3.40%	-3.29%
5/13	Import Price Index (MoM)	APR	0.60%	1.60%	0.50%	0.20%	5/27	House Price Index MoM	MAR	0.20%	-1.10%	0.70%	0.20%
5/13	Import Price Index (YoY)	APR	-16.80%	-16.30%	-14.90%	-15.30%	5/28	Durable Goods Orders	APR	0.50%	1.90%	-0.80%	-2.10%
5/13	Advance Retail Sales	APR	0.00%	-0.40%	-1.10%	-1.30%	5/28	Durables Ex Transportation	APR	-0.30%	0.80%	-0.60%	-2.70%
5/13	Retail Sales Less Autos	APR	0.20%	-0.50%	-0.90%	-1.20%	5/28	Initial Jobless Claims	23-May	627K	623K	631K	636K
5/13	Business Inventories	MAR	-1.10%	-1.00%	-1.30%	-1.40%	5/28	Continuing Claims	16-May	6750K	6788K	6662K	6678K
5/14	Producer Price Index (MoM)	APR	0.20%	0.30%	-1.20%	--	5/28	New Home Sales	APR	360K	352K	356K	351K
5/14	PPI Ex Food & Energy (MoM)	APR	0.10%	0.10%	0.00%	--	5/28	New Home Sales MoM	APR	1.10%	0.30%	-0.60%	-3.00%
5/14	Producer Price Index (YoY)	APR	-3.70%	-3.70%	-3.50%	--	5/28	Mortgage Delinquencies	1Q	--	9.12%	7.88%	--
5/14	PPI Ex Food & Energy (YoY)	APR	3.40%	3.40%	3.80%	--	5/29	GDP QoQ (Annualized)	1Q P	-5.50%	-5.70%	-6.10%	--
5/14	Initial Jobless Claims	9-May	611K	637K	601K	605K	5/29	Personal Consumption	1Q	2.00%	1.50%	2.20%	--
5/14	Continuing Claims	2-May	6410K	6560K	6351K	6358K	5/29	GDP Price Index	1Q	2.90%	2.80%	2.90%	--
5/15	Consumer Price Index (MoM)	APR	0.00%	0.00%	-0.10%	--	5/29	Core PCE QoQ	1Q	1.50%	1.50%	1.50%	--
5/15	CPI Ex Food & Energy (MoM)	APR	0.10%	0.30%	0.20%	--	5/29	U. of Michigan Confidence	MAY F	68.00	68.70	67.90	--

SOURCE: Bloomberg, LLC

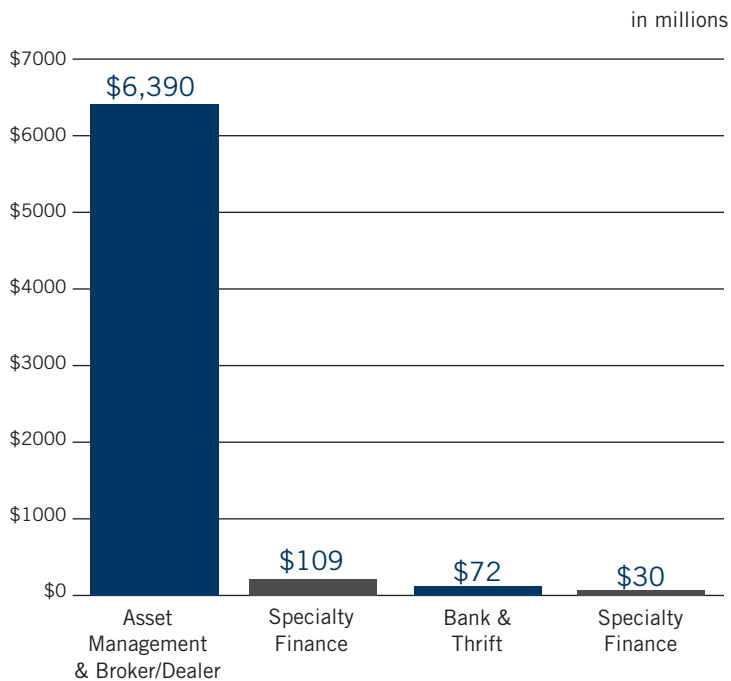
Economic Data Points - June 2009

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
6/1	Personal Income	APR	-0.20%	0.50%	-0.30%	-0.20%	6/16	PPI Ex Food & Energy (YoY)	MAY	--	--	3.40%	--
6/1	Personal Spending	APR	-0.20%	-0.10%	-0.20%	-0.30%	6/16	Housing Starts	MAY	480K	--	458K	--
6/1	PCE Deflator (YoY)	APR	0.40%	0.40%	0.60%	--	6/16	Building Permits	MAY	500K	--	494K	498K
6/1	PCE Core (MoM)	APR	0.20%	0.30%	0.20%	--	6/17	Consumer Price Index (MoM)	MAY	0.30%	--	0.00%	--
6/1	PCE Core (YoY)	APR	1.90%	1.90%	1.80%	--	6/17	CPI Ex Food & Energy (MoM)	MAY	0.10%	--	0.30%	--
6/1	ISM Manufacturing	MAY	42.30	42.80	40.10	--	6/17	Consumer Price Index (YoY)	MAY	-0.90%	--	-0.70%	--
6/1	ISM Prices Paid	MAY	35.00	43.50	32.00	--	6/17	CPI Ex Food & Energy (YoY)	MAY	1.80%	--	1.90%	--
6/1	Construction Spending MoM	APR	-1.50%	0.80%	0.30%	0.40%	6/17	CPI Core Index SA	MAY	--	--	218.594	--
6/2	Pending Home Sales MoM	APR	0.50%	6.70%	3.20%	--	6/17	Consumer Price Index NSA	MAY	--	--	213.24	--
6/2	Total Vehicle Sales	MAY	9.4M	9.9M	9.3M	--	6/18	Initial Jobless Claims	13-Jun	--	--	--	--
6/2	Domestic Vehicle Sales	MAY	7.0M	7.4M	7.0M	--	6/18	Continuing Claims	6-Jun	--	--	--	--
6/3	ISM Non-Manf. Composite	MAY	45	44	43.7	--	6/23	House Price Index MoM	MAY	--	--	-1.10%	--
6/4	Nonfarm Productivity	1Q F	1.20%	1.60%	0.80%	--	6/23	Existing Home Sales	MAY	--	--	4.68M	--
6/4	Initial Jobless Claims	30-May	620K	621K	623K	625K	6/23	Existing Home Sales MoM	MAY	--	--	2.90%	--
6/4	Continuing Claims	23-May	6855K	6735K	6788K	6750K	6/24	Durable Goods Orders	MAY	--	--	1.90%	--
6/4	ICSC Chain Store Sales YoY	MAY	--	-4.60%	-2.70%	--	6/24	Durables Ex Transportation	MAY	--	--	0.80%	--
6/5	Change in Nonfarm Payrolls	MAY	-520K	-345K	-539K	-504K	6/24	New Home Sales	MAY	--	--	352K	--
6/5	Unemployment Rate	MAY	9.20%	9.40%	8.90%	--	6/24	New Home Sales MoM	MAY	--	--	0.30%	--
6/5	Change in Manufact. Payrolls	MAY	-150K	-156K	-149K	-154K	6/24	FOMC Rate Decision	24-Jun	--	--	0.25%	--
6/5	Average Hourly Earnings MoM	MAY	0.10%	0.10%	0.10%	--	6/25	GDP QoQ (Annualized)	1Q F	--	--	-5.70%	--
6/5	Average Hourly Earnings YoY	MAY	3.10%	3.10%	3.20%	--	6/25	Personal Consumption	1Q	--	--	1.50%	--
6/5	Average Weekly Hours	MAY	33.20	33.10	33.20	--	6/25	GDP Price Index	1Q	--	--	2.80%	--
6/5	Consumer Credit	APR	-\$6.0B	-\$15.7B	-\$11.1B	-\$16.6B	6/25	Core PCE QoQ	1Q	--	--	1.50%	--
6/11	Advance Retail Sales	MAY	0.50%	0.50%	-0.40%	-0.20%	6/25	Initial Jobless Claims	20-Jun	--	--	--	--
6/11	Retail Sales Less Autos	MAY	0.20%	0.50%	-0.50%	-0.20%	6/25	Continuing Claims	13-Jun	--	--	--	--
6/11	Initial Jobless Claims	6-Jun	615K	601K	621K	625K	6/26	Personal Income	MAY	--	--	0.50%	--
6/11	Continuing Claims	30-May	6780K	6816K	6735K	6757K	6/26	Personal Spending	MAY	--	--	-0.10%	--
6/12	Import Price Index (MoM)	MAY	1.40%	1.30%	1.60%	1.10%	6/26	PCE Deflator (YoY)	MAY	--	--	0.40%	--
6/12	Import Price Index (YoY)	MAY	-17.50%	-17.60%	-16.30%	-16.40%	6/26	PCE Core (MoM)	MAY	--	--	0.30%	--
6/12	U. of Michigan Confidence	JUN P	69.5	69	68.7	--	6/26	PCE Core (YoY)	MAY	--	--	1.90%	--
6/16	Producer Price Index (MoM)	MAY	0.60%	--	0.30%	--	6/26	U. of Michigan Confidence	JUN F	--	--	--	--
6/16	PPI Ex Food & Energy (MoM)	MAY	0.10%	--	0.10%	--	6/30	S&P/CaseShiller Home Price Ind	APR	--	--	139.99	--
6/16	Producer Price Index (YoY)	MAY	--	--	-3.70%	--	6/30	S&P/CS Composite-20 YoY	APR	--	--	-18.70%	--

SOURCE: Bloomberg, LLC

M&A Transaction Update

Announced Transactions - May 2009



SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - May 2009

Asset Management & Broker/Dealer	13
Insurance & Insurance Brokerage	12
Bank & Thrift	6
Specialty Finance	3

SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - 2009 YTD

Insurance & Insurance Brokerage	58
Asset Management & Broker/Dealer	34
Bank & Thrift	33
Specialty Finance	9

SOURCE: SNL Financial, Bloomberg, Factiva

Financial Deal Alert

Hovde Financial is pleased to announce that its client, Level One Bank (a unit of Level One Bancorp, Inc.), headquartered in Farmington Hills, Michigan, purchased \$101.7 million and \$46.1 million of Michigan Heritage Bank's deposits and assets, respectively, from the FDIC following Michigan Heritage Bank being placed into receivership on April 24, 2009.

Level One Bank was founded in 2007 and, as of March 31, 2009, had \$90 million in assets.

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.	101
2	Keefe, Bruyette & Woods, Inc.	97
3	Hovde Financial	83
4	Howe Barnes Hofer & Arnett, Inc.	53
5	Stifel, Nicolaus & Company, Incorporated	39
6	Sheshunoff & Co. Investment Banking LP	28
7	Morgan Keegan & Company, Inc.	21
8	Austin Associates, LLC	20
9	Professional Bank Services Inc.	17

SOURCE: SNL Financial (data from 5/30/2004-5/30/2009)

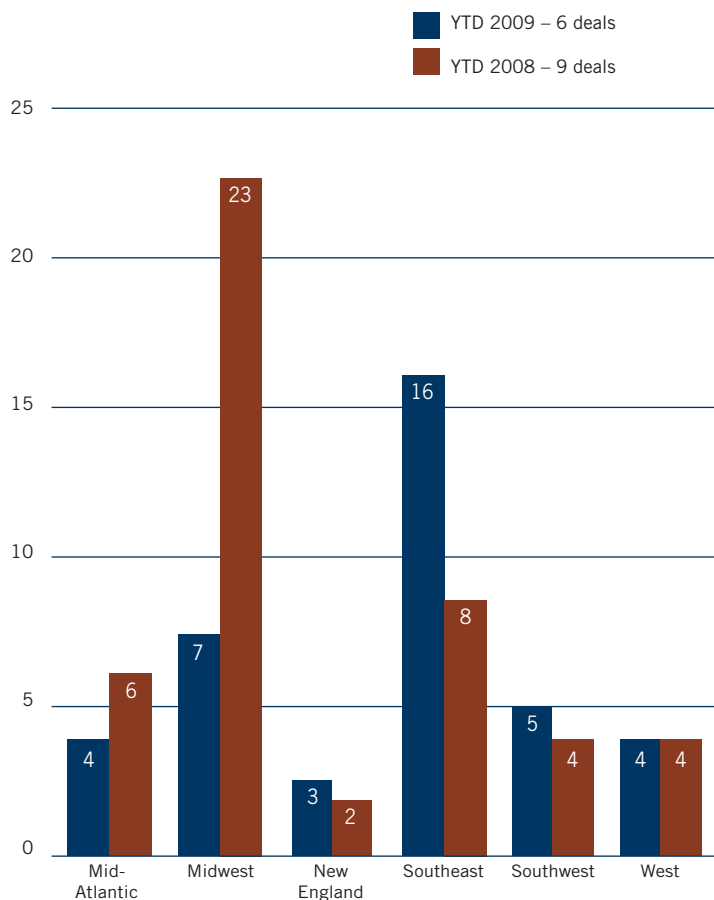
Bank & Thrift Transactions - May 2009

Buyer	Buyer State	Target	Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
Austin Bancshares, Inc.	TX	La Grange Bancshares, Incorporated	TX	5/4/2009	NA	NA	NA	NA
Foothills Bank	AZ	Yuma Community Bank	AZ	5/5/2009	10.5	18.32	185.64	11.47
JJR Bank Holding Company, Inc.	NJ	First Americano Financial Corporation	NJ	5/11/2009	NA	NA	NA	NA
OceanFirst Financial Corp.	NJ	Central Jersey Bancorp	NJ	5/26/2009	61.3	26.00	135.70	2.23
Southeast Acquisition Holding Corp.	FL	First Bank of the Palm Beaches	FL	5/12/2009	NA	NA	NA	NA
Xenith Corporation	VA	First Bankshares, Inc.	VA	5/12/2009	NA	NA	NA	NA

SOURCE: SNL Financial

Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

Deal Pricing by Region - 2009 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$353	0.0	26.0	-3.4
Midwest	\$67	108.5	20.4	2.2
New England	\$33	110.4	NA	1.6
Southeast	\$255	80.2	20.0	0.5
Southwest	\$30	44.1	14.5	-5.6
West	\$1,056	119.2	18.3	1.9
Total	\$1,794	84.3	19.9	0.4

SOURCE: SNL Financial

Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
4Q2006	\$37,379	253.4	26.1	20.4
1Q2007	\$21,007	265.3	26.8	22.9
2Q2007	\$30,841	229.3	26.5	16.4
3Q2007	\$9,324	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	\$27,202	149.9	25.9	9.0
4Q2008	\$1,680	123.0	32.6	2.1
1Q2009	\$280	92.6	18.8	-2.0
2Q2009	\$205	87.4	22.2	4.2

SOURCE: SNL Financial

Insurance and Insurance Brokerage Transactions - May 2009

Buyer	Target	Announced	DV (\$MM)
Private Investors	DCAP Group Franchise business	5/1/2009	0.2
Evercore Partners Inc.	Gail Steinberg & Co. Inc.	5/1/2009	NA
Arthur J. Gallagher & Co.	Sellers Group, LLC	5/7/2009	2.0
Brown & Brown, Inc.	Irving Weber Associates, Inc.	5/12/2009	NA
Independent Order of Foresters	Insurance business of MetLife Canada	5/13/2009	NA
Atlas Insurance Agency, Inc.	Bank of Hawaii Insurance Services, Inc.	5/15/2009	NA
Arthur J. Gallagher & Co.	Nourse Insurance Brokers, Inc.	5/18/2009	NA
Hub International Limited	Meier Insurance Agency, Inc.	5/21/2009	NA
Ameriana Bancorp	Chapin-Hayworth Insurance Agency, Inc.	5/27/2009	NA
Hub International Limited	Rettenmier Benefits Group, Inc.	5/27/2009	NA
Enstar Group Limited	Copenhagen Reinsurance Company Ltd.	5/29/2009	28.0

SOURCE: Factiva, AM Best

Asset Management/Broker-Dealer Transactions - May 2009

Buyer	Target	Announced	DV (\$MM)
Sumitomo Mitsui Financial Group, Inc.	Nikko Cordial Securities Inc.	5/1/2009	\$5,849.7
Barber Financial Group	Kasper Steck Wealth Management	5/6/2009	NA
Salient Wealth Management, LLC	Wealth Management Advisors, Inc.	5/7/2009	NA
Management group	SSG Capital Advisors, L.P.	5/7/2009	NA
Primus Guaranty, Ltd.	CypressTree Investment Management, LLP	5/12/2009	NA
Management group	Ospraie Management, LLC	5/12/2009	NA
Alternative Asset Management Acquisition Corp.	Great American Group, LLC	5/14/2009	436.0
Investor group	Babcock & Brown Infrastructure Fund North America LP	5/17/2009	NA
UMB Financial Corporation	Indiana corporate trust business	5/20/2009	NA
Actinver S.A. de C.V.	Prudential's asset management business	5/25/2009	NA
Raymond James Financial, Inc.	Lane, Berry & Co. International, LLC	5/26/2009	NA
Gunn Allen Holdings, Inc.	Pointe Capital, Inc	5/27/2009	NA
Macquarie Group Limited	Tristone Capital Global, Inc.	5/29/2009	104.1

SOURCE: Factiva, Bloomberg

Specialty Finance Transactions - May 2009

Buyer	Target	Announced	DV (\$MM)
Fidelity National Financial, Inc.	LoanCare Servicing Center, Inc.	5/14/2009	16.3
Bank of Commerce Holdings	Simonich Corporation	5/15/2009	2.5
Far Eastern Group	AIG credit card/accounts receivable businesses	5/21/2009	90

SOURCE: Factiva, Bloomberg, Reuters