Views on the Banking and Securities Sectors

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Who Is Next?

Not As Many Candidates as One Would Think

Indy Mac was seized by the FDIC on Friday afternoon. Accusations then began to fly in multiple directions. A prominent Senator was blamed for making imprudent comments about the thrift. The Senator responded by accusing the regulators of not doing their job in the first place.

The fact is that both are right. There are no benefits by having prominent officials claiming that large financial institutions are failing, are insolvent; are incapable of raising funds; or that they should be allowed to fail. This grandstanding does nothing to create confidence in the American financial system. In fact it does a great deal to undercut confidence in the system particularly if the comments are being made by men who are supposed to be protecting the system not destroying it.

Additionally, there can be no doubt that this recent era of regulation-lite allowed excesses to develop in the financial system. The unwillingness of the supposed protectors of the system to actually protect it is also inexcusable. The words of William McChesney Martin, past Chairman of the Federal Reserve, to the effect that it is the job of the Fed to take the punch bowl away while the party is going on is a meaningful one.

It argues that regulators should have the courage to stand in front of a mania and stop it. This requires a courage that simply is not in evidence in Washington either on the positive or negative side. All of the actions are to deepen the trend. It really is beyond inexcusable for top policymakers to argue that large financial institutions should be allowed to fail. It is, of course, just as inexcusable to look the other way while excesses are driven through the system.

Thus, at this point the desire is to look beyond IndyMac and see who the next failure is. There are two ways to do this:

- One method is to take the non-performing assets of an institution (non-performing loans, foreclosed assets, and 90-Day past due loans) and divide them by outstanding loans. A ratio above 5% suggests danger.
- A second approach is to divide an institution's non-performing assets by its reserves plus common equity. A ratio above 40% is the danger zone.

The first two charts on the following pages, based on the FDIC data from the first quarter of 1984 to the first quarter of 2008, indicate that the system is not anywhere near the danger that existed in the late 1980s and early 1990s despite all of the whining by public officials. Perhaps, the second quarter numbers will prove them right.

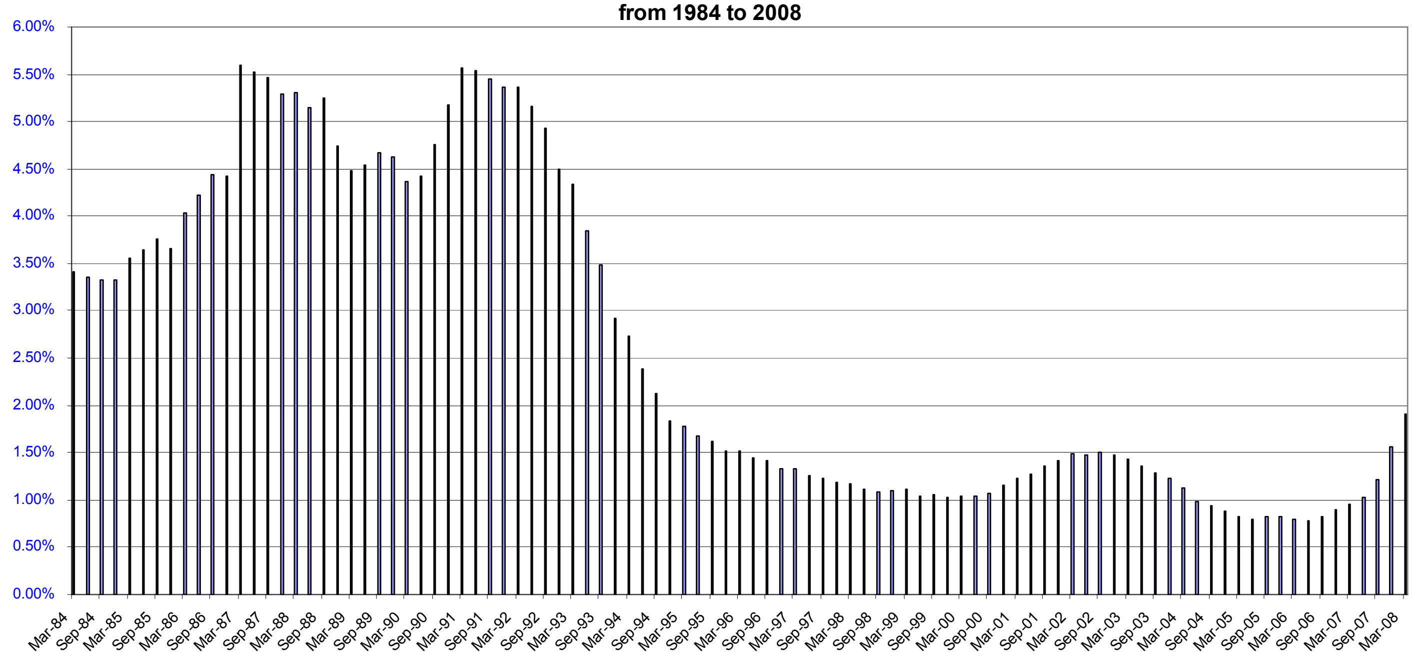
The next two tables provide the selected ratios for the 107 banks and thrifts in the United States with assets greater than $5 billion. These banks represent 79.1% of the industry (it should be noted that the five largest banks have 52.2% of the industry's assets).

None of the banks and thrifts under coverage at Ladenburg Thalmann, Inc. is in the danger zone although Washington Mutual (WM/$4.95/Neutral) is on the edge.

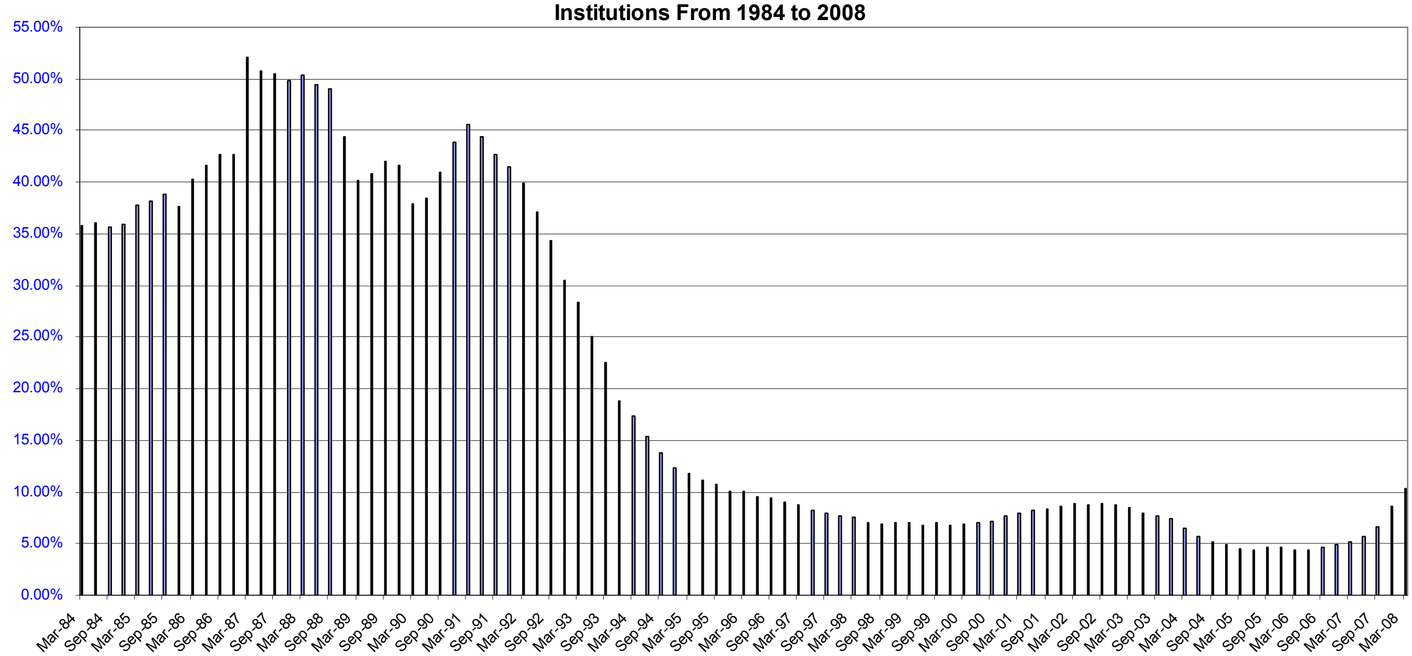
Note: As always while the numbers come from sources believed to be reliable, we do not guarantee their accuracy.

Disclosures and Analyst Certifications can be found in Appendix A.

Non-Performing Assets Divided by Outstanding Loans for the 8,494 FDIC-Insured Depository Institutions from 1984 to 2008



Non-Performing Assets Divided by Reserves Plus Common Equity for the 8,494 FDIC-Insured Depository Institutions From 1984 to 2008



		NPAs Plus 90-Day + Due/Gross Loans								
Company Name	**Ticker**	**2006Q1**	**2006Q2**	**2006Q3**	**2006Q4**	**2007Q1**	**2007Q2**	**2007Q3**	**2007Q4**	**2008Q1**
Downey Financial Corp.	DSL	0.24%	0.25%	0.44%	0.78%	1.08%	1.82%	3.58%	9.07%	13.86%
Corus Bankshares, Inc.	CORS	0.01%	0.01%	0.84%	2.78%	5.31%	6.79%	6.53%	10.73%	13.18%
Doral Financial Corporation	DRL	2.98%	3.72%	4.51%	7.87%	8.33%	9.07%	11.99%	12.36%	12.82%
IndyMac Bancorp, Inc.	IMB	0.64%	0.76%	0.76%	0.94%	1.66%	2.54%	3.69%	7.47%	10.51%
FirstFed Financial Corp.	FED	0.08%	0.07%	0.12%	0.23%	0.49%	0.92%	1.53%	3.03%	6.73%
Oriental Financial Group Inc.	OFG	3.61%	2.90%	3.21%	3.54%	3.96%	4.33%	5.46%	5.91%	6.12%
BankUnited Financial Corporation	BKUNA	0.11%	0.13%	0.19%	0.39%	0.62%	1.00%	1.63%	3.38%	5.36%
First BanCorp.	FBP	1.68%	2.14%	2.66%	2.65%	2.79%	3.38%	4.22%	4.36%	4.91%
Santander BanCorp	SBP	1.65%	1.88%	1.96%	1.93%	2.00%	2.20%	3.09%	4.49%	4.81%
BankAtlantic Bancorp, Inc.	BBX	0.18%	0.18%	0.75%	0.58%	1.06%	1.07%	4.08%	4.34%	4.40%
BFC Financial Corporation	BFF	0.17%	0.16%	0.73%	0.56%	1.05%	1.06%	4.05%	4.24%	4.30%
Washington Mutual, Inc.	WM	0.89%	1.01%	1.10%	1.25%	1.60%	1.95%	2.38%	2.98%	3.89%
Popular, Inc.	BPOP	2.41%	2.41%	2.61%	2.76%	2.95%	3.28%	3.75%	3.22%	3.52%
Flagstar Bancorp, Inc.	FBC	1.23%	1.23%	1.30%	1.32%	1.36%	1.49%	1.75%	2.72%	3.41%
Citizens Republic Bancorp, Inc.	CRBC	0.65%	0.61%	0.69%	1.09%	1.24%	1.57%	2.05%	2.63%	3.38%
National City Corporation	NCC	1.09%	1.18%	1.37%	1.54%	1.66%	1.71%	2.15%	2.86%	3.38%
Park National Corporation	PRK	0.93%	0.97%	0.95%	1.04%	1.11%	1.20%	1.78%	2.89%	3.09%
AMCORE Financial, Inc.	AMFI	0.69%	0.79%	0.81%	0.86%	0.96%	1.02%	1.18%	1.91%	2.98%
Pacific Capital Bancorp	PCBC	0.36%	0.37%	0.43%	0.35%	0.39%	0.45%	0.46%	1.41%	2.95%
First Horizon National Corporation	FHN	0.58%	0.67%	0.69%	0.78%	0.79%	0.97%	1.30%	1.82%	2.79%
Central Pacific Financial Corp.	CPF	0.27%	0.33%	0.29%	0.25%	0.06%	0.04%	0.77%	1.49%	2.79%
Guaranty Financial Group Inc.	GFG				0.37%		0.38%	1.63%	1.84%	2.78%
UCBH Holdings, Inc.	UCBH	0.51%	0.47%	0.39%	0.42%	0.70%	0.64%	0.80%	1.36%	2.67%
Synovus Financial Corp.	SNV	0.52%	0.56%	0.59%	0.63%	0.78%	0.95%	1.25%	1.79%	2.65%
Anchor BanCorp Wisconsin Inc.	ABCW	0.43%	0.51%	0.59%	1.03%	1.41%	1.37%	1.60%	2.20%	2.59%
Fifth Third Bancorp	FITB	0.73%	0.75%	0.82%	0.88%	0.97%	1.07%	1.35%	1.84%	2.55%
Capitol Bancorp Ltd.	CBC	1.03%	1.05%	1.15%	1.24%	1.26%	1.36%	1.62%	2.06%	2.48%
South Financial Group, Inc.	TSFG	0.49%	0.53%	0.41%	0.46%	0.47%	0.48%	0.60%	0.93%	2.35%
SunTrust Banks, Inc.	STI	0.58%	0.50%	0.70%	0.71%	0.85%	1.01%	1.29%	1.73%	2.34%
Sterling Financial Corporation	STSA	0.19%	0.19%	0.30%	0.16%	0.22%	0.35%	0.65%	1.39%	2.18%
Irwin Financial Corporation	IFC	1.06%	1.22%	0.99%	1.06%	1.16%	1.09%	1.45%	1.64%	2.09%
Whitney Holding Corporation	WTNY	1.08%	0.93%	0.92%	0.91%	0.86%	0.89%	1.26%	1.76%	2.00%
Marshall & Ilsley Corporation	MI	0.45%	0.52%	0.57%	0.70%	0.90%	0.94%	1.18%	2.25%	1.96%
Wachovia Corporation	WB	0.49%	0.47%	0.48%	0.47%	0.54%	0.62%	0.79%	1.29%	1.91%
First Commonwealth Financial Corporation	FCF	0.84%	0.89%	0.81%	0.71%	0.76%	1.71%	1.80%	1.87%	1.86%
Signature Bank	SBNY	0.89%	0.82%	1.20%	0.75%	0.52%	0.51%	1.45%	1.03%	1.79%
KeyCorp	KEY	0.60%	0.60%	0.62%	0.57%	0.71%	0.78%	1.03%	1.32%	1.79%
Colonial BancGroup, Inc.	CNB	0.28%	0.21%	0.13%	0.14%	0.24%	0.37%	0.55%	0.92%	1.77%
TFS Financial Corporation (MHC)	TFSL			1.11%	1.28%	1.26%	1.36%	1.50%	1.69%	1.72%
Regions Financial Corporation	RF	0.84%	0.65%	0.64%	0.53%	0.66%	0.83%	0.97%	1.27%	1.72%
Citigroup Inc.	C					0.99%	1.01%	1.24%	1.38%	1.65%
Capital One Financial Corporation	COF	0.86%	0.82%	0.85%	0.97%	0.86%	0.58%	0.80%	1.70%	1.64%
Boston Private Financial Holdings, Inc.	BPFH	0.13%	0.15%	0.32%	0.24%	0.23%		0.56%	1.02%	1.60%
Old National Bancorp	ONB	1.14%	1.15%	1.10%	1.00%	1.32%	1.27%	1.25%	0.96%	1.58%
Trustmark Corporation	TRMK	0.76%	0.82%	0.71%	0.76%	0.73%	0.71%	1.00%	1.26%	1.50%
United Community Banks, Inc.	UCBI	0.18%	0.18%	0.19%	0.25%	0.26%	0.72%	1.06%	0.78%	1.50%
Associated Banc-Corp	ASBC	0.78%	0.76%	0.93%	1.03%	1.13%	1.31%	1.13%	1.21%	1.47%
Umpqua Holdings Corporation	UMPQ	0.19%	0.14%	0.20%	0.17%	0.25%	0.80%	1.30%	1.62%	1.45%
Bank of America Corporation	BAC	0.58%	0.61%	0.64%	0.69%	0.68%	0.68%	0.79%	1.13%	1.41%
Northwest Bancorp, Inc. (MHC)	NWSB	1.02%	1.08%	1.15%	1.06%	1.01%	0.94%	1.02%	1.20%	1.40%
IBERIABANK Corporation	IBKC	0.34%	0.30%	0.27%	0.22%	0.62%	0.64%	0.83%	1.38%	1.36%
Wells Fargo & Company	WFC	0.67%	0.73%	0.81%	0.92%	0.95%	0.89%	1.01%	1.19%	1.33%
BB&T Corporation	BBT	0.49%	0.51%	0.51%	0.54%	0.55%	0.60%	0.77%	1.00%	1.33%

		NPAs Plus 90-Day + Due/Gross Loans								
Company Name	Ticker	2006Q1	2006Q2	2006Q3	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1
JPMorgan Chase & Co.	JPM	0.89%	0.88%	0.87%	0.77%	0.83%	0.83%	0.93%	1.13%	1.32%
Wintrust Financial Corporation	WTFC	0.48%	0.48%	0.56%	0.56%	0.49%	0.53%	0.70%	1.10%	1.31%
Zions Bancorporation	ZION	0.34%	0.31%	0.28%	0.36%	0.39%	0.39%	0.69%	0.92%	1.30%
Webster Financial Corporation	WBS	0.49%	0.50%	0.50%	0.48%	0.55%	0.63%	0.84%	1.11%	1.29%
PrivateBancorp, Inc.	PVTB	0.16%	0.11%	0.07%	0.28%	0.41%	0.84%	0.96%	1.15%	1.28%
Fulton Financial Corporation	FULT	0.50%	0.42%	0.44%	0.55%	0.54%	0.68%	0.96%	1.07%	1.26%
TCF Financial Corporation	TCB	0.60%	0.52%	0.57%	0.68%	0.80%	0.90%	0.87%	0.97%	1.23%
Comerica Incorporated	CMA	0.35%	0.41%	0.46%	0.52%	0.52%	0.59%	0.70%	0.94%	1.22%
Cathay General Bancorp	CATY	0.49%	0.57%	0.68%	0.64%	0.65%	0.62%	0.99%	1.44%	1.19%
WesBanco, Inc.	WSBC	0.80%	0.91%	0.89%	0.92%	0.76%	0.76%	0.78%	0.94%	1.19%
First Midwest Bancorp, Inc.	FMBI	0.63%	0.67%	0.65%	0.63%	0.73%	0.78%	0.77%	0.93%	1.18%
Susquehanna Bancshares, Inc.	SUSQ	0.54%	0.53%	0.77%	0.84%	0.78%	0.81%	0.83%	0.95%	1.16%
M&T Bank Corporation	MTB	0.40%	0.43%	0.51%	0.59%	0.73%	0.83%	1.00%	0.98%	1.08%
Provident Bankshares Corporation	PBKS	0.89%	0.85%	0.81%	0.71%	0.70%	0.67%	0.77%	0.89%	1.07%
Wilmington Trust Corporation	WL	0.67%	0.63%	0.57%	0.51%	0.49%	0.72%	1.09%	1.11%	1.05%
BOK Financial Corporation	BOKF	0.46%	0.48%	0.44%	0.39%	0.58%	0.58%	0.54%	0.85%	1.04%
Bank of New York Mellon Corporation	BK			0.21%	0.14%	0.16%	0.12%	0.15%	1.05%	1.04%
City National Corporation	CYN	0.15%	0.15%	0.19%	0.20%	0.22%	0.20%	0.23%	0.65%	1.00%
PNC Financial Services Group, Inc.	PNC	0.51%	0.56%	0.46%	0.44%	0.42%	0.48%	0.58%	0.85%	0.99%
Sovereign Bancorp, Inc.	SOV	0.52%	0.51%	0.54%	0.44%	0.58%	0.57%	0.70%	0.74%	0.93%
U.S. Bancorp	USB	0.62%	0.57%	0.59%	0.64%	0.66%	0.63%	0.71%	0.80%	0.93%
MB Financial, Inc.	MBFI	0.54%	0.43%	0.42%	0.49%	0.47%	0.43%	0.46%	0.46%	0.91%
NBT Bancorp Inc.	NBTB	0.42%	0.40%	0.44%	0.46%	0.53%	1.03%	0.92%	0.90%	0.88%
East West Bancorp, Inc.	EWBC	0.18%	0.13%	0.16%	0.24%	0.19%	0.30%	0.51%	0.76%	0.84%
Astoria Financial Corporation	AF	0.35%	0.38%	0.38%	0.41%	0.34%	0.42%	0.54%	0.48%	0.77%
United Bankshares, Inc.	UBSI	0.34%	0.33%	0.34%	0.38%	0.33%	0.45%	0.50%	0.60%	0.77%
Washington Federal, Inc.	WFSL	0.11%	0.10%	0.11%	0.10%	0.12%	0.15%	0.20%	0.48%	0.74%
Provident Financial Services, Inc.	PFS	0.16%	0.16%	0.19%	0.21%	0.22%	0.28%	0.27%	0.83%	0.72%
BancorpSouth, Inc.	BXS	0.51%	0.49%	0.47%	0.43%	0.38%	0.39%	0.46%	0.57%	0.70%
Cullen/Frost Bankers, Inc.	CFR	0.74%	0.68%	0.66%	0.93%	0.80%	0.84%	0.50%	0.57%	0.68%
FirstMerit Corporation	FMER	1.36%	1.10%	1.26%	1.16%	0.68%	0.67%	0.67%	0.69%	0.65%
Western Alliance Bancorporation	WAL	0.02%	0.01%	0.02%	0.07%	0.13%	0.21%	0.46%	0.71%	0.63%
Valley National Bancorp	VLY	0.47%	0.48%	0.45%	0.40%	0.48%	0.55%	0.55%	0.58%	0.56%
Prosperity Bancshares, Inc.	PRSP	0.08%	0.05%	0.06%	0.05%	0.13%	0.35%	0.30%	0.49%	0.56%
Commerce Bancshares, Inc.	CBSH	0.28%	0.33%	0.37%	0.39%	0.37%	0.53%	0.56%	0.50%	0.55%
Hancock Holding Company	HBHC	0.58%	0.51%	0.31%	0.21%	0.34%	0.33%	0.39%	0.54%	0.54%
First Niagara Financial Group, Inc.	FNFG	0.40%	0.33%	0.31%	0.29%	0.38%	0.42%	0.52%	0.49%	0.54%
People's United Financial, Inc.	PBCT	0.28%	0.31%	0.25%	0.24%	0.21%	0.20%	0.29%	0.29%	0.50%
First Citizens BancShares, Inc.	FCNCA	0.29%	0.31%	0.32%	0.25%	0.29%	0.27%	0.31%	0.25%	0.46%
Hudson City Bancorp, Inc.	HCBK	0.13%	0.12%	0.15%	0.17%	0.18%	0.19%	0.27%	0.34%	0.43%
NewAlliance Bancshares, Inc.	NAL	0.26%	0.26%	0.28%	0.33%	0.41%	0.33%	0.42%	0.37%	0.41%
National Penn Bancshares, Inc.	NPBC	0.28%	0.27%	0.29%	0.27%	0.34%	0.36%	0.23%	0.39%	0.40%
UnionBanCal Corporation	UB	0.14%	0.11%	0.15%	0.14%	0.13%	0.10%	0.18%	0.19%	0.37%
UMB Financial Corporation	UMBF	0.30%	0.37%	0.37%	0.29%	0.31%	0.25%	0.22%	0.27%	0.24%
Capitol Federal Financial (MHC)	CFFN	0.19%	0.17%	0.15%	0.16%	0.17%	0.16%	0.18%	0.23%	0.24%
SVB Financial Group	SIVB	0.36%	0.45%	0.45%	0.48%	0.49%	0.33%	0.26%	0.23%	0.22%
Northern Trust Corporation	NTRS	0.25%	0.26%	0.25%	0.27%	0.24%	0.20%	0.18%	0.15%	0.21%
Bank of Hawaii Corporation	BOH	0.13%	0.13%	0.13%	0.14%	0.13%	0.12%	0.10%	0.20%	0.18%
Investors Bancorp, Inc. (MHC)	ISBC	0.16%	0.11%	0.12%	0.36%	0.39%	0.14%	0.11%	0.14%	0.14%
CVB Financial Corp.	CVBF	0.00%	0.03%	0.00%	0.00%	0.00%	0.02%	0.10%	0.04%	0.11%
New York Community Bancorp, Inc.	NYB	0.15%	0.16%	0.17%	0.11%	0.13%	0.08%	0.12%	0.11%	0.11%
State Street Corporation	STT	0.04%	0.05%	0.04%	0.04%	0.03%	0.02%	0.03%	0.02%	0.02%
F.N.B. Corporation	FNB				0.93%	1.51%	0.81%	0.84%	1.11%	
Huntington Bancshares Incorporated	HBAN	0.71%	0.71%	0.75%	0.83%	0.93%	1.12%			
International Bancshares Corporation	IBOC				0.63%				1.04%	
FDIC	FDIC	2.27%	2.24%	2.25%	2.34%	2.40%	2.46%	2.60%	2.91%	3.22%

		Non-Performing Assets Plus 90 Day Delinquent Loans (000)/Reserves + Common Equity								
Company Name	**Ticker**	**2006Q1**	**2006Q2**	**2006Q3**	**2006Q4**	**2007Q1**	**2007Q2**	**2007Q3**	**2007Q4**	**2008Q1**
IndyMac Bancorp, Inc.	IMB	6.1%	6.3%	7.0%	8.8%	15.3%	24.3%	41.0%	86.9%	146.2%
Downey Financial Corp.	DSL	3.0%	2.9%	4.7%	7.6%	9.6%	14.8%	26.7%	61.9%	95.4%
Doral Financial Corporation	DRL	48.6%	47.8%	50.7%	103.5%	115.8%	155.4%	63.6%	75.3%	85.7%
BFC Financial Corporation	BFF	3.8%	3.5%	16.7%	12.7%	23.0%	23.1%	71.8%	74.4%	77.8%
BankUnited Financial Corporation	BKUNA	1.6%	1.9%	2.7%	5.6%	8.8%	14.8%	24.2%	48.7%	75.6%
Corus Bankshares, Inc.	CORS	0.1%	0.1%	4.3%	13.0%	22.6%	31.1%	29.9%	55.0%	69.9%
First BanCorp.	FBP	28.2%	30.9%	35.1%	35.7%	33.0%	41.3%	45.9%	48.5%	53.4%
FirstFed Financial Corp.	FED	1.0%	0.9%	1.4%	2.4%	4.6%	7.8%	13.6%	25.7%	52.6%
Flagstar Bancorp, Inc.	FBC	18.4%	17.8%	18.5%	18.7%	19.0%	23.2%	27.4%	39.7%	48.4%
Santander BanCorp	SBP	17.2%	18.9%	19.6%	19.5%	20.1%	22.0%	32.3%	45.2%	45.8%
Washington Mutual, Inc.	WM	8.6%	9.7%	10.7%	12.1%	15.2%	18.1%	23.0%	31.4%	40.6%
BankAtlantic Bancorp, Inc.	BBX	1.5%	1.4%	6.2%	4.7%	8.8%	8.8%	33.8%	36.2%	38.4%
Anchor BanCorp Wisconsin Inc.	ABCW	4.7%	5.5%	6.4%	11.2%	15.3%	15.1%	17.6%	23.6%	28.7%
First Horizon National Corporation	FHN	5.5%	6.3%	6.3%	7.3%	7.3%	9.2%	12.5%	19.0%	27.7%
Guaranty Financial Group Inc.	GFG				3.3%		3.3%	13.9%	14.7%	26.9%
AMCORE Financial, Inc.	AMFI	5.9%	7.1%	7.2%	7.7%	8.8%	9.8%	10.9%	17.8%	26.5%
Oriental Financial Group Inc.	OFG	12.1%	12.1%	13.1%	15.6%	17.7%	21.8%	23.3%	23.3%	26.0%
National City Corporation	NCC	9.1%	9.9%	11.1%	10.6%	12.8%	14.7%	17.6%	22.7%	25.7%
Popular, Inc.	BPOP	20.1%	20.6%	21.1%	22.8%	23.7%	26.4%	29.7%	24.4%	25.4%
Capitol Bancorp Ltd.	CBC	9.1%	9.3%	10.3%	10.7%	10.7%	11.8%	14.9%	20.0%	24.8%
Pacific Capital Bancorp	PCBC	2.7%	3.0%	3.4%	3.0%	3.1%	3.4%	3.6%	10.8%	20.5%
Fifth Third Bancorp	FITB	5.1%	5.3%	5.6%	6.2%	7.0%	8.3%	10.5%	15.4%	20.2%
Irwin Financial Corporation	IFC	9.2%	10.3%	8.8%	9.9%	10.8%	10.4%	14.2%	15.8%	20.1%
Park National Corporation	PRK	5.0%	5.3%	5.1%	5.7%	6.1%	7.0%	10.5%	18.3%	19.4%
UCBH Holdings, Inc.	UCBH	4.5%	4.1%	3.2%	3.3%	5.6%	5.0%	6.2%	10.4%	19.1%
Citizens Republic Bancorp, Inc.	CRBC	4.8%	4.5%	5.1%	5.9%	6.6%	8.5%	11.0%	14.4%	18.6%
Synovus Financial Corp.	SNV	3.4%	3.6%	3.7%	3.9%	4.8%	5.8%	7.3%	12.5%	18.4%
Central Pacific Financial Corp.	CPF	1.3%	1.6%	1.4%	1.2%	0.3%	0.2%	3.9%	8.1%	16.0%
SunTrust Banks, Inc.	STI	4.0%	3.5%	4.9%	5.2%	6.0%	7.4%	9.0%	12.0%	15.7%
South Financial Group, Inc.	TSFG	3.0%	3.2%	2.4%	2.7%	2.8%	2.9%	3.7%	5.7%	15.6%
Sterling Financial Corporation	STSA	1.8%	1.8%	2.8%	1.3%	1.6%	2.5%	4.6%	9.8%	15.3%
KeyCorp	KEY	5.0%	4.9%	5.1%	4.5%	5.8%	6.5%	8.7%	11.1%	14.1%
Colonial BancGroup, Inc.	CNB	2.1%	1.7%	1.0%	1.1%	1.7%	2.7%	3.9%	6.4%	14.0%
TCF Financial Corporation	TCB	6.3%	5.6%	5.9%	7.1%	8.2%	9.9%	9.3%	10.3%	12.8%
Marshall & Ilsley Corporation	MI	3.0%	3.4%	3.7%	4.5%	5.6%	5.9%	7.1%	13.8%	12.8%
PrivateBancorp, Inc.	PVTB	1.7%	1.1%	0.8%	3.0%	4.4%	9.0%	10.0%	9.5%	12.8%
Wachovia Corporation	WB	2.7%	2.6%	2.7%	2.8%	3.2%	3.8%	5.0%	7.8%	12.0%
Whitney Holding Corporation	WTNY	6.6%	5.6%	5.3%	5.4%	4.9%	5.1%	7.0%	10.1%	11.8%
First Commonwealth Financial Corporation	FCF	5.5%	6.0%	5.1%	4.4%	4.6%	10.4%	10.9%	11.3%	11.7%
Boston Private Financial Holdings, Inc.	BPFH	0.8%	0.9%	2.0%	1.6%	1.5%		3.8%	7.3%	11.4%
Wintrust Financial Corporation	WTFC	3.8%	3.9%	4.4%	4.6%	4.2%	4.7%	6.3%	9.6%	11.3%
Comerica Incorporated	CMA	2.8%	3.3%	3.8%	4.4%	4.4%	5.2%	6.2%	8.4%	10.9%
Trustmark Corporation	TRMK	5.6%	6.2%	5.0%	5.2%	5.1%	5.1%	7.2%	9.0%	10.6%
Northwest Bancorp, Inc. (MHC)	NWSB	6.9%	7.4%	7.8%	7.3%	7.1%	7.0%	7.8%	8.9%	10.3%
Wells Fargo & Company	WFC	5.1%	5.5%	5.8%	6.6%	6.8%	6.6%	7.7%	9.2%	10.3%
Citigroup Inc.	C					5.2%	5.4%	6.9%	8.8%	10.3%
Old National Bancorp	ONB	7.7%	8.1%	7.3%	6.6%	9.1%	8.9%	8.4%	6.4%	9.9%
United Community Banks, Inc.	UCBI	1.5%	1.6%	1.6%	2.0%	2.0%	4.7%	6.9%	5.0%	9.4%
Signature Bank	SBNY	3.0%	3.0%	4.6%	3.1%	2.2%	2.3%	7.0%	5.1%	9.3%
Zions Bancorporation	ZION	2.3%	2.1%	1.9%	2.5%	2.6%	2.7%	4.8%	6.6%	9.3%
Astoria Financial Corporation	AF	3.7%	4.1%	4.1%	4.7%	4.0%	5.2%	6.7%	6.0%	9.2%
Associated Banc-Corp	ASBC	5.0%	4.8%	5.8%	6.4%	6.9%	8.2%	6.9%	7.5%	9.0%
BB&T Corporation	BBT	3.2%	3.4%	3.3%	3.6%	3.7%	4.1%	5.2%	6.7%	8.9%

		Non-Performing Assets Plus 90 Day Delinquent Loans (000)/Reserves + Common Equity								
Company Name	**Ticker**	**2006Q1**	**2006Q2**	**2006Q3**	**2006Q4**	**2007Q1**	**2007Q2**	**2007Q3**	**2007Q4**	**2008Q1**
IBERIABANK Corporation	IBKC	2.2%	2.0%	1.9%	1.4%	3.8%	4.1%	5.4%	9.0%	8.7%
Webster Financial Corporation	WBS	3.5%	3.6%	3.6%	3.1%	3.4%	4.1%	5.4%	7.3%	8.6%
Fulton Financial Corporation	FULT	3.2%	2.8%	2.9%	3.6%	3.6%	4.5%	6.4%	7.2%	8.4%
Bank of America Corporation	BAC	2.7%	3.1%	3.2%	3.6%	3.6%	3.7%	4.4%	6.4%	8.0%
Provident Bankshares Corporation	PBKS	4.9%	4.8%	4.4%	4.0%	4.0%	3.9%	4.7%	6.2%	7.9%
Regions Financial Corporation	RF	4.4%	3.5%	3.3%	2.4%	2.9%	3.8%	4.4%	5.8%	7.8%
Cathay General Bancorp	CATY	2.9%	3.3%	3.9%	3.6%	3.8%	3.9%	6.3%	9.3%	7.7%
Sovereign Bancorp, Inc.	SOV	3.7%	3.6%	3.7%	3.1%	3.6%	3.6%	4.4%	5.7%	7.6%
First Midwest Bancorp, Inc.	FMBI	4.2%	4.5%	4.1%	3.9%	4.5%	4.8%	4.8%	5.8%	7.4%
Wilmington Trust Corporation	WL	4.5%	4.2%	3.8%	3.6%	3.4%	5.1%	7.5%	7.7%	7.4%
M&T Bank Corporation	MTB	2.5%	2.7%	3.2%	3.7%	4.6%	5.3%	6.5%	6.5%	7.3%
TFS Financial Corporation (MHC)	TFSL			8.4%	9.3%	9.0%	5.4%	6.1%	7.0%	7.2%
WesBanco, Inc.	WSBC	5.2%	5.9%	5.8%	5.9%	4.9%	4.9%	4.9%	5.7%	7.0%
U.S. Bancorp	USB	4.1%	3.8%	4.0%	4.2%	4.5%	4.4%	5.0%	5.8%	6.8%
NBT Bancorp Inc.	NBTB	3.1%	3.1%	3.3%	3.5%	3.9%	7.9%	7.2%	6.9%	6.7%
Umpqua Holdings Corporation	UMPQ	1.0%	0.6%	0.9%	0.7%	1.1%	3.6%	6.0%	7.4%	6.6%
City National Corporation	CYN	0.9%	1.0%	1.2%	1.3%	1.3%	1.3%	1.5%	4.1%	6.3%
East West Bancorp, Inc.	EWBC	1.4%	1.0%	1.3%	1.8%	1.4%	2.2%	3.5%	5.4%	6.1%
BOK Financial Corporation	BOKF	2.6%	2.8%	2.5%	2.3%	3.4%	3.5%	3.2%	5.0%	6.1%
Capital One Financial Corporation	COF	3.0%	2.8%	3.0%	3.8%	2.9%	2.0%	2.8%	6.4%	5.8%
Susquehanna Bancshares, Inc.	SUSQ	3.3%	3.2%	4.3%	4.7%	4.2%	4.5%	4.8%	4.6%	5.6%
MB Financial, Inc.	MBFI	3.8%	2.9%	2.3%	2.7%	2.6%	2.5%	2.7%	2.8%	5.6%
United Bankshares, Inc.	UBSI	2.3%	2.3%	2.4%	2.7%	2.3%	3.2%	3.5%	4.3%	5.4%
JPMorgan Chase & Co.	JPM	3.3%	3.4%	3.3%	3.0%	3.0%	3.0%	3.5%	4.4%	5.2%
BancorpSouth, Inc.	BXS	3.5%	3.4%	3.3%	3.0%	2.7%	2.8%	3.3%	4.1%	4.9%
Washington Federal, Inc.	WFSL	0.6%	0.5%	0.6%	0.6%	0.7%	0.9%	1.2%	2.9%	4.9%
PNC Financial Services Group, Inc.	PNC	2.8%	3.1%	2.2%	2.0%	1.8%	2.1%	2.6%	3.9%	4.8%
Valley National Bancorp	VLY	3.8%	3.9%	3.6%	3.3%	3.9%	4.5%	4.6%	4.8%	4.7%
FirstMerit Corporation	FMER	9.6%	7.9%	8.8%	8.6%	5.0%	5.0%	4.8%	4.8%	4.5%
Western Alliance Bancorporation	WAL	0.1%	0.1%	0.1%	0.5%	0.8%	1.3%	3.0%	4.7%	4.3%
Commerce Bancshares, Inc.	CBSH	1.8%	2.1%	2.3%	2.5%	2.4%	3.5%	3.7%	3.3%	3.6%
Cullen/Frost Bankers, Inc.	CFR	4.4%	4.0%	3.6%	4.7%	3.9%	4.3%	2.5%	2.8%	3.2%
Hancock Holding Company	HBHC	3.0%	2.8%	1.7%	1.1%	1.8%	1.9%	2.3%	3.2%	3.2%
First Citizens BancShares, Inc.	FCNCA	2.1%	2.3%	2.3%	1.8%	2.0%	1.9%	2.2%	1.7%	3.1%
UnionBanCal Corporation	UB	1.0%	0.8%	1.0%	1.1%	1.0%	0.8%	1.4%	1.5%	3.1%
Provident Financial Services, Inc.	PFS	0.6%	0.6%	0.7%	0.8%	0.8%	1.1%	1.1%	3.4%	2.9%
First Niagara Financial Group, Inc.	FNFG	1.5%	1.3%	1.2%	1.1%	1.5%	1.7%	2.1%	2.0%	2.3%
Hudson City Bancorp, Inc.	HCBK	0.4%	0.4%	0.6%	0.7%	0.8%	0.9%	1.3%	1.8%	2.3%
National Penn Bancshares, Inc.	NPBC	1.6%	1.6%	1.8%	1.7%	2.1%	2.2%	1.5%	2.5%	2.1%
Bank of New York Mellon Corporation	BK			0.6%	0.5%	0.5%	0.4%	0.3%	1.8%	1.9%
Prosperity Bancshares, Inc.	PRSP	0.3%	0.2%	0.2%	0.2%	0.4%	1.0%	0.8%	1.3%	1.5%
Capitol Federal Financial (MHC)	CFFN	1.2%	1.1%	0.9%	1.0%	1.0%	1.0%	1.1%	1.4%	1.4%
Bank of Hawaii Corporation	BOH	1.0%	1.1%	1.1%	1.1%	1.0%	1.0%	0.8%	1.5%	1.4%
People's United Financial, Inc.	PBCT	1.8%	2.0%	1.6%	1.6%	1.4%	0.4%	0.6%	0.6%	1.3%
NewAlliance Bancshares, Inc.	NAL	0.7%	0.7%	0.8%	0.9%	1.3%	1.0%	1.3%	1.2%	1.3%
SVB Financial Group	SIVB	1.6%	2.2%	2.4%	2.5%	2.4%	1.7%	1.4%	1.3%	1.3%
Northern Trust Corporation	NTRS	1.3%	1.4%	1.3%	1.5%	1.2%	1.1%	1.0%	0.8%	1.1%
UMB Financial Corporation	UMBF	1.2%	1.6%	1.6%	1.2%	1.3%	1.1%	1.0%	1.1%	1.0%
CVB Financial Corp.	CVBF	0.0%	0.2%	0.0%	0.0%	0.0%	0.2%	0.8%	0.3%	0.8%
Investors Bancorp, Inc. (MHC)	ISBC	0.5%	0.4%	0.4%	1.3%	1.5%	0.6%	0.5%	0.7%	0.7%
New York Community Bancorp, Inc.	NYB	0.8%	0.8%	0.9%	0.6%	0.7%	0.4%	0.5%	0.5%	0.5%
State Street Corporation	STT	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
F.N.B. Corporation	FNB				6.7%	10.9%	5.9%	6.2%	8.1%	
Huntington Bancshares Incorporated	HBAN	5.6%	5.9%	5.9%	6.7%	7.4%	9.0%			
International Bancshares Corporation	IBOC				3.5%				5.8%	
Totals										
FDIC	FDIC	12.6%	12.6%	12.5%	12.8%	13.0%	13.5%	14.2%	15.9%	17.4%

What Should Be Done With Fannie and Freddie?

Break Them Up

Policy makers are faced with a need to solve the dilemma created for the financial system by fears that Fannie Mae (FNM/$10.25/N.R.) and Freddie Mac (FRE/$7.75/N.R.), dually known as the GSEs, may lack, or lack access to, the appropriate capital resources. The elements of the dilemma are as follows:

- The GSEs cannot be allowed to fail without putting the financial system of the United States at risk.
- The United States government cannot nationalize these companies or guarantee their debt explicitly and, maybe now, even implicitly.
- They cannot be allowed to continue in their present form because they have a long record of complete mismanagement and fraud, and they are simply too big.
- They must support growth in the housing industry.

The solution to this problem takes multiple parts:

- Short-term,
  - The GSEs must develop credit lines with the Federal Home Loan Bank System to meet whatever short-term funding needs that they may have, and
  - Then they must issue a convertible preferred no matter what the dilutive impact on existing shareholders.
- Long-term,
  - The Federal government must establish a new Secondary Mortgage entity much like the Federal Reserve to be owned by the users of its services.
  - The new entity should buy both Fannie Mae and Freddie Mac, and
  - Then allocate their holdings to 12 District secondary mortgage companies owned by local mortgage originators.

  In essence, return the structure of these companies to a form that was similar to both what the old Federal National Mortgage Association and the Federal Reserve looked like.

The Four Horns of the Dilemma

<u>Defaults Not Acceptable</u>

It is now being understood by participants in the financial markets what a stranglehold Fannie and Freddie have on the United States financial system. That stranglehold takes many forms.

Magnitude

The United States government owes an estimated $9.5 trillion. Federal agencies like the Social Security Administration own an estimated $4.2 trillion of this debt and, therefore, that portion of the Federal debt is not in the market place. The remaining $5.3 trillion is held in public hands and constitutes what is generally known as the tradable government debt.

In comparison the direct debt of the two GSEs is an estimated $1.5 trillion and they have guaranteed mortgages equal to just under $4 trillion. Therefore, in total, the amount of debt held and guaranteed by these entities is $5.5 trillion or more than the publicly traded debt of the United States government. This does not include the exposure of these companies to off balance sheet vehicles.

Consequently, should these two GSEs default on their debt it would create losses throughout the financial system in the United States and around the world. Virtually every bank and thrift of size in this country owns some of this debt.

Legal and Accounting

If the GSEs default, it is simply not an issue of losing money on bad loans, however. GSE paper qualifies as a "legal investment." Entities that can only own legal investments would be forced to sell the GSE paper immediately on a default creating a glut of this paper on the market.

Further, banks and thrifts that own mortgages that have been packaged and guaranteed by the GSEs are allowed to hold virtually no capital against these investments. If the GSEs default, the guarantee is gone and the paper now becomes mortgages or mortgage backed securities. This would force the banks to raise capital to meet mandated regulatory requirements for such instruments.

Banks, thrifts, and credit unions own an estimated $1.3 trillion of these guaranteed securities. If the capital requirement for mortgages was 0.5%, then these companies would have to raise $6.5 billion in new capital.

Mortgage Interest Rates

At present, the GSEs pass through to the mortgage industry a small subsidy that comes from their lower borrowing costs. This lower borrowing cost is a function of the recognition that these companies are "too big to fail." The loss of this borrowing cost advantage would force mortgage rates higher.

Additionally, if legal institutions were forced to sell mortgage paper and depository institutions had to add capital to hold this paper, mortgage rates would rise to cover the shift in market activity. Additionally, some mortgages would not be made at any cost.

<u>No Government Bailout Possible</u>

It is clear that Fannie and Freddie are too big to fail. They are also too big for the United States government to support. Referring to the numbers above, if the debt and the known guarantees of the GSE's are added to the public debt of the United States, that debt would grow by 104% to an estimated $10.8 billion.

This might cause the value of the dollar to decline. It might force interest rates throughout the economy higher, not just those of the mortgage sector. It might force Congress to raise taxes.

Add to the entities that are not big enough to protect Fannie and Freddie, the Federal Reserve. This agency is approximately the same size of each of the GSEs. The Fed has $940 billion in assets. Fannie has $883 billion and Freddie has $803 billion. In theory, the Fed has $6 billion in equity and the GSEs together have $60 billion.

It is for these reasons, the risks to the United States financial system, that the former Fed Chairman, Alan Greenspan, repeatedly went to Congress during his tenure to ask that these agencies be reduced in size. He was supported by Treasury Secretaries Paul O'Neill and John Snow. The current Treasury Secretary Henry Paulson did not argue for a cutback.

<u>Current Structure Unacceptable</u>

Mr. Paulson has publicly stated that he does not want to see the structure of Fannie Mae and Freddie Mac changed. This view is wrong. It may be Mr. Paulson's way of recognizing that he has no ideas about how to run these organizations other than to argue that big financial companies should fail.

However, the metrics above clearly indicate why these companies must be restructured. They are now so large that they dominate activities in the mortgage markets impacting not just financial institutions but also housing, and through housing, the United States economy. (It is ironic that Fannie Mae's predecessor, the Federal National Mortgage Association was created to help housing and stimulate the U.S. economy.)

It is also clear that these institutions are so large that they are impacting the funding of the United States government and possibly the value of the U.S currency. They may have reached a size that allows them to interfere with the normal functioning of the government itself, if the government actually does the unthinkable, and guarantees their debt.

Moreover, I have argued for decades now that these institutions raise interest rates in the overall economy by diverting funds away from commercial activities into housing. I remember cooperating in the writing of a 92 page thesis on this issue in 1993 with Jill Patrick. This piece is long gone, however.

Further, the stock prices of these companies are easily manipulated. Despite their enormous size, the market capitalization of Fannie is only approximately $11 billion and Freddie is approximately $5 billion. Thus, $16 billion in market cap is associated with $1.7 trillion of on-balance-sheet assets and $5.5 trillion in debt and guarantees.

This is a very tiny tail whacking around a very big dinosaur. This situation cannot be allowed to persist for the heath of the United States economy and financial system.

<u>Housing Needs Fannie and Freddie</u>

Depression Era

In the 1920s the dominant form of mortgage document in the United States was the five year balloon mortgage. The homeowner paid interest for five years and when it came time to pay the balloon, generally refinanced. In the 1930s, the banks refused to refinance the balloon and foreclosures skyrocketed.

Therefore, it was concluded that a self-amortizing mortgage was needed. To establish an affordable monthly payment a longer maturity was required. Banks refused to make these loans. The solution was to establish the F.H.A to insure 20-year self-amortizing mortgages, create Fannie Mae's predecessor, the Federal National Mortgage Association (FNMA) to buy them and utilize mortgage brokers to originate them.

Great Society

In the late 1960s, mortgage purchases financed by the government for FNMA were creating a problem for the federal budget. Even worse, the following pattern arose:

- Interest rates would rise in a strengthening economy;
- The savings and loan industry could not compete and, therefore, could not access funds
- Housing would be starved for funds and weaken;
- Ultimately, the economy would fall;
- Then budget receipts to the government would fall;
- Congress' solution to get the economy out of the recession would be to authorize more funding for FNMA to stimulate housing
- Thus, FNMA's debt would soar as government receipts were falling increasing the budget deficit.

Yet in the late 1960s, the cities were burning, President Johnson had introduced his Great Society program and the Congress demanded 26 million housing units be built in the 10 year period from 1968 to 1978. To achieve the mandated goals money had to be attracted to housing. Thus, Fannie Mae and Freddie Mac were created as public companies; mortgage backed bonds were invented; sub-prime mortgages were created; and interest rate limits were ended.

Current Era

In the current housing crisis, the need for new methodologies has arisen once again. This time the issue is focused on eliminating the excesses that have developed in the home finance market. Virtually, all of the innovations of the past seven decades have been bastardized in some fashion.

Companies are going bankrupt, mortgage structures are failing; losses from traditional loss areas like sub-prime are rising and the distribution that had been so finely crafted by the legislators over a 70 year period is falling apart.

In this environment, the Administration and the Congress have turned once again to the secondary market buyers, now called GSEs. Despite clear evidence of massive fraud and mismanagement in these companies; despite the total breakdown in the oversight procedures; despite their size; and despite the repeated warnings of regulators like Mr. Greenspan, the government has adjusted the rules to increase the competitive strength of both GSE companies.

Why? One might argue that there is a bankruptcy of thought in both the Treasury Department and the Congress. The old expression of the "blind leading .. " comes to mind. Carter Glass is not around and neither is Paul Douglas or Jim Leach, Congressmen who defined financial legislation in this country.

So we have reached a point of intellectual bankruptcy. It is not a viable strategy for the Treasury and Fed to run around arguing to let financial firms go bankrupt while prominent Congressman and ex financial leaders argue that certain financial companies are insolvent.

In the late 19th century there was actually a law that prohibited creating a financial panic by attacking financial institutions. To my knowledge this law is still on the books and, perhaps, our financial lack-of-leaders should think about why it is there.

At any rate the point today is the same as it was in the 1930s. The housing market in this country needs a smoothly operating secondary mortgage market. It particularly needs it today due to the evident stresses in the system and the economy. Much as one might hate them (and based on the way they have been run one should hate them) the U.S. cannot do without the services of Fannie and Freddie.

The Solution

<u>Short-Term</u>

Credit Lines

The two GSEs should rely on an open line of credit through the Federal Home Loan Bank system for new monies. It is critical that the short-term money requirements of the GSEs be met and that the GSEs approach the wholesale money markets as little as possible to get the funds they need.

Capital Issues Addressed

The GSEs should also issue convertible preferreds to add capital so that the markets are confidant that these agencies have the funds they need to function and still support growth in housing. These preferreds should be sold to the users of the GSEs services – i.e., banks, thrifts, and mortgage brokers.

<u>Longer-Term</u>

To determine how to solve the current problems one must go back to the philosophical approaches of Carter Glass the author of both the Federal Reserve Act and the two Glass-Steagall Acts. Senator Glass had two basic tenets:

- Money should be available when it is needed;
- Distribution channels should be in place to get it to where it is needed when it is needed.

Money is not available to housing, at present, when it is needed to prevent foreclosures and bankruptcies. The distribution channels to get the money where it needs to go have broken down. The disappearance of Countrywide Financial, the bankruptcy of Indy Mac, or the run on the GSEs, indicate that these channels have failed.

New Structure

A new structure needs to be created that mirrors the current structures of the Federal Reserve and the Federal Home Loan Bank System. It should be an independent agency called the Federal Secondary Market System (FSMS) and it should have 12 regional locations. The agency itself and the regional districts should be owned by companies that originate and hold mortgages.

The President and Congress should appoint the new agency's head and its Board of Directors. The local institutions who own the District offices of the new agency should select from among their group the local Presidents and Directors.

The FSMS should borrow the money from the government to buy Fannie Mae and Freddie Mac insuring that the price offered allows the new preferred holders to obtain a reasonable profit and provides an exit strategy for current shareholders. An option should be available to allow existing shareholders to swap their stock for shares in the any, or all, of the 12 District offices of the new agency.

The FSMS should then sell its newly acquired assets to the regional district offices and repay Congress.

Functions

The new agency should establish uniform practices for the secondary mortgage markets. It should define the qualifications of the sellers of product to the District offices; the types of mortgages that are acceptable; and the funding techniques that the District offices use. It should also establish oversight activities to monitor all aspects of the secondary market system. This includes the establishment of stiff penalties for offenders.

The District offices should buy mortgages from local originators. They should also guarantee and sell mortgages. They may also create structured mortgage products to meet market demands. It should require all mortgage sellers to buy shares in the regional district whenever they sell mortgages to it. In special periods the District offices should also be allowed to sell special subscriptions to their owners to generate the funds necessary to buy additional mortgages to help housing.

Conclusion

None of these concepts are new. All of them are now in practice in other agencies of the Federal government. Fannie and Freddie outlived their effectiveness a decade ago. However, what they do is more needed than ever. Get rid of them and create new structures that will perform their functions more efficiently, with more accountability, and without the distraction of the equity markets

APPENDIX A:
IMPORTANT RESEARCH DISCLOSURES

ANALYST CERTIFICATION: I, Richard X. Bove, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

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Buy: The stock's return is expected to exceed 15% over the next twelve months.
Neutral: The stock's return is expected to be plus or minus 15% over the next twelve months.
Sell: The stock's return is expected to be negative 15% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

RATINGS DISPERSION AND BANKING RELATIONSHIPS

Buy	65%	(14% are banking clients)
Neutral	33%	(3% are banking clients)
Sell	2%	(0% are banking clients)

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