THE BAILOUT REVISITED

DORSEY & WHITNEY LLP

December 17, 2008

TABLE OF CONTENTS

GLOSSARY

ABS" = Asset-backed Securities

"CPP" = Capital Purchase Program established by the Treasury under the TARP

"EESA" = the Emergency Economic Stabilization Act of 2008

"Federal Reserve" = Federal Reserve System

"FDIC" = Federal Deposit Insurance Corporation

"MBS" = Mortgage-backed Securities

"Treasury" = United States Department of the Treasury

"TARP" = the Troubled Assets Relief Program provided for by the EESA

INTRODUCTION

Over the weeks since we released our previous report, The Shape of the Bailout, on October 29, 2008, there have been numerous developments in the implementation of the EESA and the related initiatives of the Federal Reserve, the FDIC and the Treasury. In addition, the "Big 3" U.S. automobile makers have requested loans from Congress, and the incoming Obama Administration has begun to outline its economic program. The purpose of this report is to summarize recent developments in the evolving Federal response to the credit crisis and the now-official recession it caused. We will provide an overview of the government's recent actions, and information concerning ongoing and proposed programs. This information is designed to be helpful in seeking to assess the risks and opportunities resulting from the federal government's unprecedented activities in the financial system.

I. THE WARPING OF TARP

A. What Toxic Assets?

The centerpiece of the EESA was TARP, which authorized the Treasury to purchase up to $700 billion in certain types of "toxic assets" – primarily mortgage-related securities – in order to stabilize the economy and restore liquidity to the country's financial system. By mid-November 2008, however, Treasury Secretary Henry Paulson had concluded that buying troubled assets from financial institutions was "not the most effective way" to use the $700 billion authorization, while the Federal Reserve and the FDIC had identified other ways to finance or assume the risk on some of the troubled assets Treasury was originally going to buy.

TARP gives Treasury the authority to purchase "other financial instruments" if it believes doing so is necessary to stabilize American markets. In reliance on this provision, Paulson shifted the focus of TARP away from buying toxic assets towards making direct capital investments in American financial firms in return for preferred stock and warrants through the CPP. Treasury has set aside $250 billion to fund the CPP, and, as of this writing, has approved the investment of over $167 billion in 116 banks and bank holding companies. Treasury expects to invest the entire $250 billion allocated to TARP.

Treasury has not ruled out purchasing mortgage-related assets in the future, but would likely only do so on a targeted, case by case basis. Thus far, it has not used its authority under TARP to do that. Instead, the Federal Reserve and the FDIC have provided financing on other financial support for institutions that continue to carry toxic assets, in an amount that may exceed $2 trillion (the Federal Reserve has not released details of the extent of its financing of "toxic assets"). TARP has been used to recapitalize the banking system, provide life support for institutions deemed "too big to fail", and try to promote new consumer lending. Essentially, the government has leveraged TARP funding by investing in bank capital in the hope that the capital will restore lending and permit strong institutions to work through the problems of weak ones, while using other government resources to address the problem of toxic assets at troubled institutions.

B. Too Big to Fail

On November 10, 2008, Treasury announced it would purchase $40 billion in preferred stock from insurance giant American International Group using TARP funds. Simultaneously, the Federal Reserve Board declared it was restructuring its past financial support to AIG. As a result of Treasury's new investment, the Fed announced it would reduce the $85 billion bridge loan provided to AIG in September to $60 billion, cut the interest rate by 5.5 percentage points and extend the borrowing period to five years from two.

In addition, the Federal Reserve, citing Section 13(3) of the Federal Reserve Act for authority, supplied an additional $50 billion to create two new lending facilities to buy mortgage-related assets and derivatives from AIG. In the first facility, the New York Fed will lend up to $22.5 billion to a newly formed limited liability company ("LLCI") to fund its purchase of residential MBS from AIG's U.S. securities lending collateral portfolio. AIG will make a $1 billion subordinated loan to LLCI and bear the risk for the first $1 billion of any losses on the portfolio. The loans will be secured by all of the assets of LLCI and will be repaid from the cash flows produced by these assets as well as proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

In the second new facility, the New York Fed will lend up to $30 billion to another newly formed limited liability company ("LLCII") to fund its purchase of collateralized debt obligations (CDOs) on which AIG has written credit default swap (CDS) contracts. AIG will make a $5 billion subordinated loan to this LLCII and bear the risk for the first $5 billion of any losses on the portfolio. In connection with the purchase by LLCII of the CDOs, the CDS counterparties will concurrently unwind the related CDS transactions. The loans will be secured by all of the LLCII's assets and will be repaid from cash flows produced by these assets as well as the proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

On November 23, 2008, the Treasury Department, Federal Reserve and FDIC entered into an agreement with Citigroup to provide a package of guarantees, liquidity access and capital. Under the agreement, the FDIC and Federal Reserve will share Citigroup's losses on a pool of up to $306 billion in impaired assets including MBS and other consumer debts. Under the loss-sharing agreement, Citigroup will bear the first $29 billion in losses on the pool; after that, the Federal Reserve, Treasury and FDIC will collectively bear 90% of losses and Citigroup will bear 10%. The Federal Reserve's share is being structured as a non-recourse loan to the company. As a fee for this agreement, Citigroup will issue $7 billion in preferred stock to the government agencies. In addition, Treasury will invest $20 billion of TARP funds in Citigroup in exchange for preferred stock with an 8% dividend. The agreement requires Citigroup to comply with enhanced executive compensation restrictions and to implement FDIC's mortgage modification program (discussed below).

Both the AIG and Citigroup rescue plans demonstrate the government's expansion of TARP beyond the $700 billion originally provided by the EESA. The government's total exposure to AIG could be as much as $152.5 billion, of which $40 billion consists of TARP funds. Similarly, the government's potential exposure to Citigroup is $294.3 billion, of which only $45 billion consists of TARP funds.

The rescues of AIG and Citigroup raise the question of whether the federal government will step in to save other troubled financial institutions deemed "too big to fail." The 171 institutions currently on the FDIC's watch list represent $115.6 billion in assets, up from $73.8 at the beginning of the quarter. While that number is large, it pales next to the amounts already committed to AIG and Citigroup. On November 25, 2008, FDIC Chairman Sheila Bair stated that the FDIC expects more banks to fail. Although it's difficult to predict the details, it seems clear that while bad real estate and other loans continue to plague bank balance sheets, more failures are on the horizon. To date, however, none of the institutions being watched is likely to be deemed "too big to fail."

The Treasury Department has anticipated large institution failures by creating a Systemically Significant Failing Institutions Program (SSFI) under TARP. Unlike the CPP, for which any financial institution may apply, the Treasury will use SSFI to make investments in institutions that are "systemically significant and at substantial risk of failure." Few details about this program are available, but Treasury used SSFI funds to purchase the $40 billion in AIG stock in November. The subsequent rescue of Citigroup, however, did not involve SSFI funds.

C. Participating Banks

As of December 16, 2008, Treasury has provided $167.75 billion in CPP capital to 116 financial institutions, including nine of the nation's largest: Citigroup, Bank of America, JP Morgan Chase, Goldman Sachs, Morgan Stanley, Wells Fargo, Bank of New York Mellon, State Street, and Merrill Lynch. A list of the participating banks is attached to this report.

But Treasury will likely invest all of the $250 billion it has set aside for the CPP. As of this writing, approximately 35 banks have applications pending, seeking a total of $75 billion in equity. This includes Etrade Financial Corp.'s request for the public purchase of $800 million worth of its shares. In addition, qualified private entities were permitted to submit requests until December 8, 2008, and Treasury continues to consider an appropriate program to make CPP investments in banks and bank holding companies taxed under Subchapter S and for institutions organized in mutual form.

D. CPP – Private Issuer Terms

As the November 14, 2008, application deadline approached for public company applications to participate in the CPP, uncertainty about private issuer participation in the program remained. While Treasury had indicated that program terms for private issuers as well as a separate deadline were forthcoming, the lack of any "formal" action to that effect led a number of private issuers and their advisers to conclude that the best course of action was to file an application by the public company deadline. Treasury took more formal action just a few days before the deadline, amending it's FAQ's for CPP to specifically state that the original deadline only applied to public companies (and define a public company for purposes of the program). For some, however, this was too little to late and the November 14, 2008, deadline was met by applications filed by both public and private companies.

On November 17, 2008, Treasury issued program terms for private company participation in CPP ("Private TARP CPP") and established December 8, 2008 as the deadline for qualifying private companies to apply. The focus then quickly turned to the companies not included in the Private TARP CPP terms. As issued, the Private TARP CPP terms were not applicable to issuers taxed under Subchapter S of the Internal Revenue Code or to those organized in a mutual form.

Like the public company program, Treasury's investment takes the form of senior perpetual preferred stock counting as Tier 1 capital with a $1,000 liquidation preference and dividends at the rate of 5% for the first five years and 9% thereafter. The aggregate investment may be between 1% and 3% of risk-weighted assets. The terms relating to liquidation preference, voting rights, and executive compensation restrictions are similar to the public company program. The restrictions on redemption of the preferred are also similar, with no redemption in the first three years except with the proceeds of a qualifying equity offering of new Tier 1 capital with cash proceeds equal to at least 25% of Treasury's preferred stock investment.

The Private TARP CPP terms do include some important differences from the public program. Instead of warrants for common stock priced at market price, Treasury receives warrants for additional preferred stock with an exercise price of $0.01 per share. This warrant preferred has a liquidation preference of $1,000 per share, will bear dividends at a rate of 9% and the total amount issued under the warrants is set at 5% of Treasury's initial preferred investment. Treasury has indicated that these preferred warrants will be immediately exercised.

Like the public program, dividends on common stock may not be paid as long as TARP preferred dividends remain unpaid. In addition, an issuer may not increase common dividends per share for three years and thereafter not by more than 3% per annum for the next 7 years, unless (x) Treasury has transferred all the preferred stock and warrants to third parties, or (y) all the preferred stock and warrants have been redeemed. In general, an issuer may not purchase or redeem any stock (including trust preferred) prior to the earlier of (a) tenth anniversary of the closing, (b) the date the Treasury has transferred all the preferred stock and warrants to third parties, or (c) the date all the preferred stock and warrants have been redeemed. Then, beginning on the tenth anniversary of the closing, there can be no common dividends paid or any repurchases of any junior stock so long as Treasury still holds any of the preferred stock, effectively requiring the redemption of any preferred still held by Treasury at that time.

Unlike the public program, the only restriction on transfer of the preferred shares by Treasury is to not transfer the preferred in a manner that would cause the issuer to become a reporting company. Participants in the Private TARP CPP program are also subject to a special affiliate transaction rule requiring that all affiliate transactions between a private issuer or any of its subsidiaries and any other affiliate be on terms no less favorable to the issuer and its subsidiaries than a transaction with an unrelated third party. The Private TARP CCP agreements require a participant that is a bank or savings and loan holding company to maintain that status so long as Treasury holds its TARP securities and that any TARP securities held by Treasury be redeemed prior to termination of holding company status. The Private TARP CPP Agreements also require a participant to remain predominantly engaged in financial activities for so long as Treasury holds TARP securities. "Predominantly engaged" is defined as at least 85% of consolidated gross revenue from activities that are financial in nature or incidental to a financial activity pursuant to 4(k) of the Bank Holding Company Act.

E. Becoming a Bank to Participate

Since the passage of the EESA, various entities have filed applications with the Federal Reserve to become Bank Holding Companies ("BHCs"). As such, they are eligible to apply to participate in CPP. These applicants include Goldman Sachs (approved on September 21, 2008), Morgan Stanley (approved on September 21, 2008) and American Express Company and American Express Travel Related Services Company, Inc. (approved on November 10, 2008). Several insurance companies have also applied to become Savings and Loan Holding Companies or Thrift Holding Companies, including Hartford Financial Services Group Inc. and Protective Life Corporation, also with hope of getting access to CPP funds. These entities have made no secret of the fact that the main reason for the application is the possibility of access to TARP funds, which Goldman Sachs and Morgan Stanley have already received.

The application which has received most attention, however, is that by GMAC Financial Services, Inc. ("GMAC"), formerly a unit of General Motors Corp. and now 51% owned by a consortium of investors led by the private-equity firm Cerberus Capital Management LP and 49% owned by General Motors Corp. GMAC's application has reopened a debate, similar to the one caused when Wal-Mart and Home Depot Inc. sought to purchase industrial loan companies a few years ago (bids that were not successful), concerning the line between banking and other business. A BHC can only engage in certain permissible activities under the Bank Holding Company Act (12 U.S.C. § 1841 et seq.). To the extent any entity becomes a BHC and is at that time engaged in any nonpermissible activity, it has to conform such activities within two years, with the possibility of three one-year extensions. GMAC is still working to raise sufficient capital by means of a debt-to-equity swap to support the BHC application.

F. Consumer Lending Initiative

On November 25, 2008 the Treasury announced it will allocate $20 billion in TARP funds to back an asset backed lending facility targeted at consumer and small business loans. Under the Term Asset Backed Loan Facility ("TALF"), the Treasury and the Federal Reserve Bank of New York ("FRBNY") will lend up to $200 billion to a newly created special purpose vehicle (the "SPV") in order to improve the availability of credit for consumers and small businesses. Any U.S. person, business entity or U.S. branch or agency of a foreign bank may participate in the TALF.

Under TALF, the SPV will make non-recourse loans to participants for a term of not more than one year (which term may be lengthened if deemed appropriate.) The loans will be fully secured by eligible ABS securities. Advance rates will be set by FRBNY based on price volatility of each class of collateral. Payments of principal/interest on eligible collateral must be used to pay interest/principal on the TALF loan. After the loans are made, the TALF term sheet contemplates that the SPV will purchase the underlying collateral for an amount equal to an amount equal to the loan balance

Eligible ABS securities are:

* U.S. dollar-denominated;
* not synthetic; and
* highest investment-grade rating category.

Assets underlying eligible ABS must be:

* new or recently originated;
* U.S. domiciled obligors;
* auto loans, student loans, credit card loans or small business loans guaranteed by the U.S. Small Business Administration; and
* originators of credit must agree to comply with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008.

A fixed amount of TALF loans will be offered monthly and awarded to borrowers on a competitive, sealed bid auction process with the FRBNY setting minimum spreads for each auction. The FRBNY will develop procedures to assess any high risk ABS that may be pledged for a TALF loan.

The SPV will purchase and manage the TALF assets for a fee. The TARP will purchase from the SPV subordinated debt to finance the first $20 billion of assets purchased and additional funds will be lent to the SPV by the FRBNY. Cash flows from assets held by the SPV are to be used first to repay the FRBNY loan which is senior to the TARP loan. The TALF loan program is scheduled to terminate on December 31, 2009 unless extended by the Federal Reserve Board.

G. Almost Half Way

At this time, CPP, AIG, Citigroup, TALF and the Federal Reserve's Term Asset-Backed Securities Loan Facility have collectively been allocated $335 billion of the first $350 billion of TARP funds. In addition, as of December 12, 2008, the Treasury opened the door to using TARP funds to provide bridge financing to General Motors and Chrysler. To dip into the second $350 billion, the Treasury will need to go back to Congress (the funds are available unless Congress disapproves).

II. PROPPING UP THE BANKING SECTOR

A. Bank Failures

There have been a total of 25 bank failures since the beginning of 2008. The FDIC's "problem list" grew during the third quarter from 117 to 171 institutions.

All but one of the failed banks were sold in purchase and assumption transactions after the FDIC was appointed receiver. In these transactions, the acquiring institution purchases at least a portion of the failed bank's assets and assumes the failed bank's insured deposits (and frequently uninsured deposits as well), with the FDIC typically paying the acquiring institution to assume the deposits and retaining any remaining assets as receiver for distribution among the FDIC (for its cost to have the deposits assumed) and the failed bank's uninsured depositors and other creditors. The largest such transaction this year was the sale of Washington Mutual to JPMorgan Chase. The only failed bank not to be sold in this manner was IndyMac, which was temporarily closed and then reopened under FDIC supervision.

B. Shelf Charters and New Options for Private Equity

In light of the growing number of troubled banks, the FDIC and OCC have announced that they will grant "shelf charters" to investors who wish to bid on troubled institutions. On November 17, 2008, the OCC granted preliminary conditional approval to an investor group to organize a national bank for the purpose of acquiring liabilities and assets from the FDIC acting as receiver of failed banks. The approval was unusual because the investment group had neither identified a specific acquisition target nor submitted a detailed business plan to create a new bank, one of which would ordinarily be a prerequisite to approval of a national bank charter. On November 21, 2008, the OCC confirmed that such conditional shelf-charters could be available to other investors, and on November 26, 2008, the FDIC announced that it would allow shelf-charter banks to bid on failing banks and would consider abbreviated deposit insurance applications from these entities. These measures are intended to expand the pool of qualified bidders for the assets and liabilities of failing depository institutions. Without such an expanded pool, the FDIC would likely have to liquidate more failed banks, resulting in greater cost to taxpayers and more disruption to the financial system.

The "shelf-charter" process is as follows. First, the investor submits an abbreviated bank charter application to the OCC and a preliminary deposit insurance application to the FDIC. The agencies will evaluate the investor's proposed management team, capital, and business plan. Applicants will have to demonstrate that they have sufficient banking experience and capital to successfully acquire and operate a failing bank. If satisfactory, the OCC may grant conditional approval of the shelf charter and the FDIC may issue conditional deposit insurance approval. The shelf-charter bank is then eligible to participate in the FDIC's bid process. If the investor makes a successful bid on a failed institution, the organizers must submit a more detailed business plan, based on which the OCC and FDIC may grant final approval of the bank charter and deposit insurance. The conditional charter remains "on the shelf" for 18 months. If a bid is unsuccessful, the investor may use the same "shelf-charter" for other bids. Investors must also obtain approval from the Federal Reserve Board to form a bank holding company before completing an acquisition. The Fed has not yet announced whether it will implement a conditional approval procedure similar to that announced by the OCC and the FDIC.

The introduction of the shelf charter follows the Federal Reserve Board's announcement in September that it would loosen long-standing policies to make it easier for private equity funds and other investors to acquire minority stakes in financial institutions. Under the new policy, with the Fed's prior approval, an investor may acquire up to 15% of a bank's voting securities and up to 32.9% of a bank's total (voting and nonvoting) equity without having to be qualified as a bank holding company, which would significantly limit the investor's ability to engage in nonfinancial activities. The new policy also permits investors to appoint a limited number of directors and to communicate directly with bank management, both of which were prohibited for minority equity holders under former Fed policy.

C. FDIC Debt Guarantees and Temporary Deposit Insurance Increase

As discussed in The Shape of the Bailout, the FDIC is helping both troubled and healthy banks through its Temporary Liquidity Guarantee Program (TLGP), which provides guarantees for senior bank debt and unlimited deposit insurance for non-interest bearing deposit accounts. Details of the plan were first announced in an interim rule on October 23, 2008, which was described in our previous report. The interim rule was amended on November 4, 2008, and a final rule was issued on November 21, 2008. Covered institutions had until December 5, 2008, to decide whether to stay in or opt out of one or both parts of the program. Approximately 900 of the roughly 15,000 eligible depository institutions have opted out of the extended deposit guarantee, while some 3,100 banks and bank holding companies have opted out of the debt guarantee[1].

In the final rule, the FDIC made some significant changes to the loan guarantee portion of the program:

- Under the interim rule, the FDIC was to make guarantee payments only if a covered institution entered bankruptcy or receivership proceedings. Under the final rule, the FDIC's guarantee is instead triggered by a payment default. To obtain payment on a guarantee, the creditor must submit a claim to the FDIC, within 60 days of the default, after giving the covered institution any notice and opportunity to cure required under the terms of the debt. The FDIC will make scheduled principal and interest payments when due (without acceleration), in exchange for a full assignment of the creditor's rights against the defaulting institution, including any bankruptcy claims. The guarantee does not cover default interest, penalties, fees or expenses. It is not clear from the final rule whether the guarantee is triggered by a debtor's failure to make accelerated principal payments after a non-payment default.

1 Complete opt-out lists are available on the FDIC's website. http://www.fdic.gov/regulations/resources/TLGP/optout.html

- A covered depository institution's default on guaranteed debt will be grounds for the FDIC to be appointed as conservator or receiver.

- The guarantee will not apply to debt with a term of 30 days or less, so that covered institutions may borrow funds in overnight markets without incurring guarantee fees.

- Recognizing that not all debt bears the same risk of default, the FDIC has changed from a fixed fee of 0.75% for all guaranteed debt to a tiered fee structure, with a lower fee for short-term debt (up to 180 days) and a higher fee for long-term debt (more than 365 days). Slightly higher fees will apply to bank holding companies whose depository institutions account for less than 50% of the holding company's total assets.

- All participating institutions must sign a "Master Agreement" that requires, among other things, that the institution reimburse the FDIC for any guarantee payments, that all covered debt instruments include certain subrogation provisions and that the FDIC's consent will be required for any change to the payment terms of guaranteed debt.

- Under the interim rule, the maximum amount of guaranteed debt that can be issued by any participating institution was capped at 125% of the institution's senior unsecured debt outstanding as of September 30, 2008 with a maturity date on or before June 30, 2009. This limit has not changed, but in the final rule the FDIC has provided as an alternative that for institutions with no senior unsecured debt outstanding on September 30, 2008, the cap will be 2% of the institution's total consolidated liabilities. The final rule also permits depository institutions to make use of their parent company's guarantee cap, to the extent not used by the parent company.

The final rule made few changes to the deposit insurance provisions of the TLGP. The most significant change is to extend full insurance coverage to NOW accounts that pay interest at a rate of 0.50% or less and to Interest on Lawyers Trust Accounts (IOLTAs). The final rule also clarifies certain provisions regarding sweep accounts. All depository institutions are required to post notices in their main offices, in each domestic branch and on any internet banking sites by December 19, 2008, stating whether they are participating in the deposit insurance guarantee. Clients with questions about how the deposit insurance limits apply to their accounts should contact their banks.

III. FORECLOSURE PREVENTION

A. FDIC Loan Modification Initiative

On November 20, 2008 the FDIC announced a plan to avoid unnecessary foreclosures by converting defaulted loans into performing loans by facilitating loan modifications. This program is very similar to the GSE program discussed below (not surprising – the GSE program is based on an FDIC model). This program is based upon the approach the FDIC announced in August after the failure of IndyMac Bank to modify several thousand loans originated by IndyMac.

FDIC Chairman Sheila C. Bair said, "The IndyMac loan modification framework is an effective loss mitigation strategy for both portfolio and securitized mortgages. I have long supported a systematic and streamlined approach to loan modifications to put borrowers into long-term, sustainable mortgages—achieving an improved return for bankers and investors compared to foreclosure. Implementing widespread loan modifications based on the Program used at IndyMac will strengthen local neighborhoods where foreclosures are driving down property values and will help stabilize the broader economy. I would encourage all industry participants to adopt the FDIC Loan Modification Program as the standard approach in dealing with the grave problems facing us with continued mounting foreclosures." [2]

The program has two goals which are weighed against one another – modifying loans for eligible homeowners on one hand and minimizing the losses to investors of MBS on the other hand. Regarding the first goal, it will be applicable to borrowers who have current problems making their payments but have the capacity to make payments in the future if they have loans that are affordable. Typically borrowers will be eligible if they are 60 days or more delinquent in their payments. The servicer will calculate the amount of monthly payments that will be affordable for the owner. The aim is that the servicer will calculate modified payments that will result in a reduction of at least 10%. The FDIC program emphasizes that most mortgage loans are owned and held in pools by securitization trusts. The second part of the process is for the servicer to determine whether the loan modification will be better for investors in the pool in which the mortgage is held than foreclosure. If the net present value of the modified loan will be higher than the net proceeds from foreclosing on the property, the investors will benefit from modifying the loan and it can be approved. If the return from modifications will be less than foreclosure, the modification will not be approved. The goal is to make loan modifications consistent with typical MBS securitization transaction documents to avoid modifications being blocked or delayed by investor objections.

---

[2] FDIC Press Release PR-121-2008 dated 11-20-2008 - FDIC Announces Availability of IndyMac Loan Modification Model.

B. Fannie Mae & Freddie Mac

Since the EESA was enacted Fannie Mae and Freddie Mac have announced two initiatives to reduce the incidence of foreclosures that are preventable and assist homeowners with their mortgages.

The first of these initiatives is a streamlined loan modification program. This program was announced on November 11, 2008 as a coordinated initiative between the HOPE NOW Alliance, the Federal Housing Authority, Fannie Mae and Freddie Mac and The Department of Treasury, with input from the FDIC.

The goal of the program is to identify homeowners that:

* are at risk of losing their homes to foreclosure;
* have missed three or more payments;
* own and occupy their home as their primary residence; and
* are not bankrupt.

The servicer is then supposed to calculate an affordable payment by evaluating monthly mortgage payments (some adjustments to be made for certain expenses) as a percentage of monthly gross income. A ratio below 38% will be considered to be affordable under the program guidelines. The thought is that these clearly defined parameters will streamline and simplifying the loan modification process, reducing documentation and hence processing time with the goal of increasing modifications. Also, servicers will likely have to commit less time and resources to the modification process. Once a homeowner is considered eligible for the program the servicer would work with them to reduce their payments through various methods which might include reducing interest rates, capitalizing interest and principal, extending the maturity of the loan or in some cases even forgiving principal. One of the primary goals of this program is to move homeowners into loans that they can afford and repay. The governing documents of the securitization pools in which many mortgages have been placed may restrict the flexibility of the servicer in modifying loans without first getting investor approval, which might not be possible.

The program is scheduled to launch on December 15, 2008.

The GSE's have also temporarily suspended foreclosures. On November 20th, 2008 Fannie Mae and Freddie Mac (and 2-4 unit properties for Freddie Mac) announced that they will suspend all foreclosure sales on occupied single family properties for the period commencing November 26, 2008 and ending January 9, 2009. The timing is designed to give homeowners time to work with servicers under the streamlined framework to modify their existing loans to terms that are more affordable.

C. Securitized Loans

Most mortgages are held in securitized pools (whether originated by GSEs or private issuers) whose payments of principal, interest and liquidation proceeds (if any) are passed through to investors who purchased securities backed by those mortgages. As a practical matter the documents governing securitizations of residential MBS vary regarding the types of loan modifications that the servicer is permitted to make. In theory, loan modifications of the type provided for in the FDIC program should be permissible under most securitization documents. Servicers are typically entitled to modify defaulted loans in securitization pools if the "net present value" of the modified loan (taking account of the possibility of subsequent default) will exceed the amount of the expected recovery upon foreclosure. But there are complications. Before any loan can be modified, the securitization documents need to be reviewed to determine whether the servicer has the contractual right to modify the loan and what types of modification it can authorize. This is not always clear, and the stage has been set for conflicts between the political pressure to modify loans and the claims of investors that loan modifications will have a negative impact on their returns.

This conflict is exemplified by the recent filing of an investor lawsuit against certain Countywide entities, in which the plaintiff asserted that Countrywide would have to repurchase from the effected trusts any loans that it modifies in connection with recent settlement of claims by certain state attorneys general about Countrywide's loan practices.[3] While the state attorneys general settlement (among other factors) distinguishes the Countrywide situation from that of most MBS servicers, liability concerns may be inhibiting servicers from following the approaches outlined by the FDIC and the GSEs.

[3] Greenwich Financial Services Distressed Mortgage Fund 3, LLC and QED LLC (Plaintiffs) against Countrywide Financial Corporation, Countrywide Home Loans, Inc., and Countrywide Home Loans Servicing LP (Defendants) filed December 1, 2008 in the Supreme Court of the State of New York.

IV. WHO'S NEXT?

Financial institutions have been the primary beneficiaries of the $335 billion that has been allocated to date under the EESA and the additional billions in loans and guaranties provided by the Federal Reserve and the FDIC. In part because the primary goal of the EESA – to spur more lending – remains elusive, many are questioning whether a bailout focused almost exclusively on financial institutions can or will have the intended effect on the economy. As job losses continue to mount across the U.S., there is some acknowledgement that other industries and sectors of the economy are on the brink of failures that could compound the effects of the credit crisis. Consequently, lawmakers and others are assessing whether the remaining EESA funds – or additional funds – can be better deployed elsewhere and, if so, where and how. Those assessments are balanced by questions of whether further bailouts are appropriate at all. While we are not in a position to determine what results these assessments will yield, we have identified the most likely potential recipients of additional "bailout funds".

A. Insurance companies.

The bailout of AIG is on-going; its importance in the credit default swap market convinced the Treasury and the Federal Reserve that its failure would have a significant impact on the financial system as a whole. The verdict is out on whether it will remain the sole insurer permitted to participate in TARP. As discussed above, a few insurers have applied for savings and loan holding company status in an attempt to access CPP funds. Other insurers, particularly those with heavy investments in real estate, including MBS, have struggled. For example, LandAmerica Financial Group, Inc., the parent company of a number of title insurers, recently filed for Chapter 11 protection (although its title insurance subsidiaries remain solvent), while financial guarantors such as MBIA Inc. and Ambac Financial Group, Inc. continue to face increased liquidity concerns triggered primarily by multiple credit downgrades stemming from losses on credit default swaps covering MBS and collateralized debt obligations. Most, however, remain well-capitalized and financially strong, notwithstanding losses stemming from investments, and few, if any, have the level of exposure in, or connection to, the financial market akin to AIG's role in the credit default swaps. While TARP funds are an attractive source of capital that could help shore up losses, outside the insurers themselves, few have expressed any sustained interest or need in extending rescue funds to these insurers. Accordingly, it is likely that AIG will continue to stand alone as a non-financial institution beneficiary of TARP.

B. Automakers.

Notwithstanding that General Motors, Chrysler and Ford botched their initial requests for financial assistance, a failure of the one or more of these automakers would likely have a significant effect on the economy – at least one analyst has estimated that up to 2.5 million jobs could be lost if the "Big Three" cease production in 2009, even if they return to 50% of current production levels in 2010 and 2011. Accordingly, the automakers are the most likely non-financial companies to receive a bailout. It appears increasingly likely that some sort of short-term loan will be made to General Motors and Chrysler to stave off their imminent insolvency; Ford is apparently solvent enough to survive into the new year. The source of the funds is also still at issue although Treasury has softened its opposition to using TARP funds. Any longer-term package is likely to come with multiple conditions attached that are, at least on paper, designed to improve the likelihood of success, including oversight of restructuring efforts by a government "czar", limits on executive compensation and restrictions or outright bans on dividends.

C. State and local governments.

Many state and local governments are facing massive budget deficits – California, for example, has an approximately $27.8 billion budget gap over the next two years. At least 41 states facing a budget shortfall. Some lawmakers have suggested that a "bailout" of these governments is a necessary component of any economic stimulus package; without the funds, critical programs that ease the transition to and from the workforce, or that provide a feeder into the workforce, are in jeopardy. Some, however, are reluctant to extend aid to state and local governments, arguing that those governments have an obligation to address their deficits head-on by reducing their own spending and increasing revenue, if necessary, through taxes; state and local governments should not be contributing to increasing the federal deficit. For now, the focus of the bailout appears to be firmly rooted in the private sector, so it is unlikely we will see any allocations from TARP – or any other substantial assistance – extended to state or local governments before the transition to the new Administration.

D. The Obama Agenda.

On December 16, 2008, members of President-elect Barack Obama's economic team briefed him on ways to address the financial crisis and plans for an economic-stimulus package. The Obama team appears to be developing a broader approach that would incorporate multiple remedies, while at the same time trying to develop a coherent strategy for further bailout activities. The new administration will clearly focus its efforts more heavily on helping homeowners. Details of the plans to help homeowners have not yet been developed.

The Obama financial rescue is expected to continue the current focus on addressing the lack of capital at financial institutions. That could mean additional equity injections, as well as an effort to have the government acquire more troubled assets. Much of the Obama team's financial rescue package likely won't be known until the new administration takes office next month. Some of it depends on whether Mr. Paulson seeks the second half of the promised $700 billion. Lawmakers have made it clear that if Treasury wants to get the remaining $350 billion, it will need to come up with a foreclosure-mitigation plan and enact stricter requirements on banks that get government funds. Any request for the additional funds will need to include foreclosure mitigation and have the support of the President-elect.

President-elect Barack Obama has made a number of statements in recent weeks concerning the economy and provided some indications of his priorities for tackling the recession. He has endorsed a prompt stimulus package and pledged to create at least 2.5 million jobs in two years. Specifically, Obama has endorsed public works projects to rebuild infrastructure quickly and in a manner that creates jobs, saves energy and makes America more competitive. In particular, he has said he wants to make federal buildings more energy efficient, invest in roads and bridges, modernize school buildings and connect more citizens, as well as hospitals, to the internet.

On December 11, 2008, Obama called on Congress to approve short term aid to the U.S. auto industry. He expressed particular concern about the jobs that would otherwise be lost.

CAPITAL PURCHASE PROGRAM
Transaction Report
Updated on December 16, 2008; 11:26 AM

Date	Seller			Transaction Type	Description	Price Paid	Pricing Mechanism
	Name of Institution	City	State				
10/28/2008	Bank of America Corporation	Charlotte	NC	Purchase	Preferred Stock w/Warrants	$15,000,000,000	Par
10/28/2008	Bank of New York Mellon Corporation	New York	NY	Purchase	Preferred Stock w/Warrants	$3,000,000,000	Par
10/28/2008	Citigroup Inc.	New York	NY	Purchase	Preferred Stock w/Warrants	$25,000,000,000	Par
10/28/2008	The Goldman Sachs Group, Inc.	New York	NY	Purchase	Preferred Stock w/Warrants	$10,000,000,000	Par
10/28/2008	JPMorgan Chase & Co.	New York	NY	Purchase	Preferred Stock w/Warrants	$25,000,000,000	Par
10/28/2008	Morgan Stanley	New York	NY	Purchase	Preferred Stock w/Warrants	$10,000,000,000	Par
10/28/2008	State Street Corporation	Boston	MA	Purchase	Preferred Stock w/Warrants	$2,000,000,000	Par
10/28/2008	Wells Fargo & Company	San Francisco	CA	Purchase	Preferred Stock w/Warrants	$25,000,000,000	Par
1/ 10/28/2008	Merrill Lynch & Co., Inc.	New York	NY	Purchase	Preferred Stock w/Warrants	$10,000,000,000	Par
11/14/2008	Bank of Commerce Holdings	Redding	CA	Purchase	Preferred Stock w/Warrants	$17,000,000	Par
11/14/2008	1st FS Corporation	Hendersonville	NC	Purchase	Preferred Stock w/Warrants	$16,369,000	Par
11/14/2008	UCBH Holdings, Inc.	San Francisco	CA	Purchase	Preferred Stock w/Warrants	$298,737,000	Par
11/14/2008	Northern Trust Corporation	Chicago	IL	Purchase	Preferred Stock w/Warrants	$1,576,000,000	Par
11/14/2008	SunTrust Banks, Inc.	Atlanta	GA	Purchase	Preferred Stock w/Warrants	$3,500,000,000	Par
11/14/2008	Broadway Financial Corporation	Los Angeles	CA	Purchase	Preferred Stock w/Warrants	$9,000,000	Par
11/14/2008	Washington Federal Inc.	Seattle	WA	Purchase	Preferred Stock w/Warrants	$200,000,000	Par
11/14/2008	BB&T Corp.	Winston-Salem	NC	Purchase	Preferred Stock w/Warrants	$3,133,640,000	Par
11/14/2008	Provident Bancshares Corp.	Baltimore	MD	Purchase	Preferred Stock w/Warrants	$151,500,000	Par
11/14/2008	Umpqua Holdings Corp.	Portland	OR	Purchase	Preferred Stock w/Warrants	$214,181,000	Par
11/14/2008	Comerica Inc.	Dallas	TX	Purchase	Preferred Stock w/Warrants	$2,250,000,000	Par
11/14/2008	Regions Financial Corp.	Birmingham	AL	Purchase	Preferred Stock w/Warrants	$3,500,000,000	Par
11/14/2008	Capital One Financial Corporation	McLean	VA	Purchase	Preferred Stock w/Warrants	$3,555,199,000	Par
11/14/2008	First Horizon National Corporation	Memphis	TN	Purchase	Preferred Stock w/Warrants	$866,540,000	Par
11/14/2008	Huntington Bancshares	Columbus	OH	Purchase	Preferred Stock w/Warrants	$1,398,071,000	Par
11/14/2008	KeyCorp	Cleveland	OH	Purchase	Preferred Stock w/Warrants	$2,500,000,000	Par
11/14/2008	Valley National Bancorp	Wayne	NJ	Purchase	Preferred Stock w/Warrants	$300,000,000	Par
11/14/2008	Zions Bancorporation	Salt Lake City	UT	Purchase	Preferred Stock w/Warrants	$1,400,000,000	Par
11/14/2008	Marshall & Ilsley Corporation	Milwaukee	WI	Purchase	Preferred Stock w/Warrants	$1,715,000,000	Par
11/14/2008	U.S. Bancorp	Minneapolis	MN	Purchase	Preferred Stock w/Warrants	$6,599,000,000	Par
11/14/2008	TCF Financial Corporation	Wayzata	MN	Purchase	Preferred Stock w/Warrants	$361,172,000	Par
11/21/2008	First Niagara Financial Group	Lockport	NY	Purchase	Preferred Stock w/Warrants	$184,011,000	Par
11/21/2008	HF Financial Corp.	Sioux Falls	SD	Purchase	Preferred Stock w/Warrants	$25,000,000	Par
11/21/2008	Centerstate Banks of Florida Inc.	Davenport	FL	Purchase	Preferred Stock w/Warrants	$27,875,000	Par
11/21/2008	City National Corporation	Beverly Hills	CA	Purchase	Preferred Stock w/Warrants	$400,000,000	Par

CAPITAL PURCHASE PROGRAM
Transaction Report

Updated on December 16, 2008; 11:26 AM

Date	Seller			Transaction Type	Description	Price Paid	Pricing Mechanism
	Name of Institution	City	State				
11/21/2008	First Community Bankshares Inc.	Bluefield	VA	Purchase	Preferred Stock w/Warrants	$41,500,000	Par
11/21/2008	Western Alliance Bancorporation	Las Vegas	NV	Purchase	Preferred Stock w/Warrants	$140,000,000	Par
11/21/2008	Webster Financial Corporation	Waterbury	CT	Purchase	Preferred Stock w/Warrants	$400,000,000	Par
11/21/2008	Pacific Capital Bancorp	Santa Barbara	CA	Purchase	Preferred Stock w/Warrants	$180,634,000	Par
11/21/2008	Heritage Commerce Corp.	San Jose	CA	Purchase	Preferred Stock w/Warrants	$40,000,000	Par
11/21/2008	Ameris Bancorp	Moultrie	GA	Purchase	Preferred Stock w/Warrants	$52,000,000	Par
11/21/2008	Porter Bancorp Inc.	Louisville	KY	Purchase	Preferred Stock w/Warrants	$35,000,000	Par
11/21/2008	Banner Corporation	Walla Walla	WA	Purchase	Preferred Stock w/Warrants	$124,000,000	Par
11/21/2008	Cascade Financial Corporation	Everett	WA	Purchase	Preferred Stock w/Warrants	$38,970,000	Par
11/21/2008	Columbia Banking System, Inc.	Tacoma	WA	Purchase	Preferred Stock w/Warrants	$76,898,000	Par
11/21/2008	Heritage Financial Corporation	Olympia	WA	Purchase	Preferred Stock w/Warrants	$24,000,000	Par
11/21/2008	First PacTrust Bancorp, Inc.	Chula Vista	CA	Purchase	Preferred Stock w/Warrants	$19,300,000	Par
11/21/2008	Severn Bancorp, Inc.	Annapolis	MD	Purchase	Preferred Stock w/Warrants	$23,393,000	Par
11/21/2008	Boston Private Financial Holdings, Inc.	Boston	MA	Purchase	Preferred Stock w/Warrants	$154,000,000	Par
11/21/2008	Associated Banc-Corp	Green Bay	WI	Purchase	Preferred Stock w/Warrants	$525,000,000	Par
11/21/2008	Trustmark Corporation	Jackson	MS	Purchase	Preferred Stock w/Warrants	$215,000,000	Par
11/21/2008	First Community Corporation	Lexington	SC	Purchase	Preferred Stock w/Warrants	$11,350,000	Par
11/21/2008	Taylor Capital Group	Rosemont	IL	Purchase	Preferred Stock w/Warrants	$104,823,000	Par
11/21/2008	Nara Bancorp, Inc.	Los Angeles	CA	Purchase	Preferred Stock w/Warrants	$67,000,000	Par
12/5/2008	Midwest Banc Holdings, Inc.	Melrose Park	IL	Purchase	Preferred Stock w/Warrants	$84,784,000	Par
12/5/2008	MB Financial Inc.	Chicago	IL	Purchase	Preferred Stock w/Warrants	$196,000,000	Par
12/5/2008	First Midwest Bancorp, Inc.	Itasca	IL	Purchase	Preferred Stock w/Warrants	$193,000,000	Par
12/5/2008	United Community Banks, Inc.	Blairsville	GA	Purchase	Preferred Stock w/Warrants	$180,000,000	Par
12/5/2008	Wesbanco Bank Inc.	Wheeling	WV	Purchase	Preferred Stock w/Warrants	$75,000,000	Par
12/5/2008	Encore Bancshares Inc.	Houston	TX	Purchase	Preferred Stock w/Warrants	$34,000,000	Par
12/5/2008	Manhattan Bancorp	El Segundo	CA	Purchase	Preferred Stock w/Warrants	$1,700,000	Par
12/5/2008	Iberiabank Corporation	Lafayette	LA	Purchase	Preferred Stock w/Warrants	$90,000,000	Par
12/5/2008	Eagle Bancorp, Inc.	Bethesda	MD	Purchase	Preferred Stock w/Warrants	$38,235,000	Par
12/5/2008	Sandy Spring Bancorp, Inc.	Olney	MD	Purchase	Preferred Stock w/Warrants	$83,094,000	Par
12/5/2008	Coastal Banking Company, Inc.	Fernandina Beach	FL	Purchase	Preferred Stock w/Warrants	$9,950,000	Par
12/5/2008	East West Bancorp	Pasadena	CA	Purchase	Preferred Stock w/Warrants	$306,546,000	Par
12/5/2008	South Financial Group, Inc.	Greenville	SC	Purchase	Preferred Stock w/Warrants	$347,000,000	Par
12/5/2008	Great Southern Bancorp	Springfield	MO	Purchase	Preferred Stock w/Warrants	$58,000,000	Par
12/5/2008	Cathay General Bancorp	Los Angeles	CA	Purchase	Preferred Stock w/Warrants	$258,000,000	Par

CAPITAL PURCHASE PROGRAM
Transaction Report
Updated on December 16, 2008; 11:26 AM

Date	Seller			Transaction Type	Description	Price Paid	Pricing Mechanism
	Name of Institution	City	State				
12/5/2008	Southern Community Financial Corp.	Winston-Salem	NC	Purchase	Preferred Stock w/Warrants	$42,750,000	Par
12/5/2008	CVB Financial Corp	Ontario	CA	Purchase	Preferred Stock w/Warrants	$130,000,000	Par
12/5/2008	First Defiance Financial Corp.	Defiance	OH	Purchase	Preferred Stock w/Warrants	$37,000,000	Par
12/5/2008	First Financial Holdings Inc.	Charleston	SC	Purchase	Preferred Stock w/Warrants	$65,000,000	Par
12/5/2008	Superior Bancorp Inc.	Birmingham	AL	Purchase	Preferred Stock w/Warrants	$69,000,000	Par
12/5/2008	Southwest Bancorp, Inc.	Stillwater	OK	Purchase	Preferred Stock w/Warrants	$70,000,000	Par
12/5/2008	Popular, Inc.	San Juan	PR	Purchase	Preferred Stock w/Warrants	$935,000,000	Par
12/5/2008	Blue Valley Ban Corp	Overland Park	KS	Purchase	Preferred Stock w/Warrants	$21,750,000	Par
12/5/2008	Central Federal Corporation	Fairlawn	OH	Purchase	Preferred Stock w/Warrants	$7,225,000	Par
12/5/2008	Bank of Marin Bancorp	Novato	CA	Purchase	Preferred Stock w/Warrants	$28,000,000	Par
12/5/2008	Bank of North Carolina	Thomasville	NC	Purchase	Preferred Stock w/Warrants	$31,260,000	Par
12/5/2008	Central Bancorp, Inc.	Somerville	MA	Purchase	Preferred Stock w/Warrants	$10,000,000	Par
12/5/2008	Southern Missouri Bancorp, Inc.	Poplar Bluff	MO	Purchase	Preferred Stock w/Warrants	$9,550,000	Par
12/5/2008	State Bancorp, Inc.	Jericho	NY	Purchase	Preferred Stock w/Warrants	$36,842,000	Par
12/5/2008	TIB Financial Corp	Naples	FL	Purchase	Preferred Stock w/Warrants	$37,000,000	Par
12/5/2008	Unity Bancorp, Inc.	Clinton	NJ	Purchase	Preferred Stock w/Warrants	$20,649,000	Par
12/5/2008	Old Line Bancshares, Inc.	Bowie	MD	Purchase	Preferred Stock w/Warrants	$7,000,000	Par
12/5/2008	FPB Bancorp, Inc.	Port St. Lucie	FL	Purchase	Preferred Stock w/Warrants	$5,800,000	Par
12/5/2008	Sterling Financial Corporation	Spokane	WA	Purchase	Preferred Stock w/Warrants	$303,000,000	Par
12/5/2008	Oak Valley Bancorp	Oakdale	CA	Purchase	Preferred Stock w/Warrants	$13,500,000	Par
12/12/2008	Old National Bancorp	Evansville	IN	Purchase	Preferred Stock w/Warrants	$100,000,000	Par
12/12/2008	Capital Bank Corporation	Raliegh	NC	Purchase	Preferred Stock w/Warrants	$41,279,000	Par
12/12/2008	Pacific International Bancorp	Seattle	WA	Purchase	Preferred Stock w/Warrants	$6,500,000	Par
12/12/2008	SVB Financial Group	Santa Clara	CA	Purchase	Preferred Stock w/Warrants	$235,000,000	Par
12/12/2008	LNB Bancorp Inc.	Lorain	OH	Purchase	Preferred Stock w/Warrants	$25,223,000	Par
12/12/2008	Wilmington Trust Corporation	Wilmington	DE	Purchase	Preferred Stock w/Warrants	$330,000,000	Par
12/12/2008	Susquehanna Bancshares, Inc	Lititz	PA	Purchase	Preferred Stock w/Warrants	$300,000,000	Par
12/12/2008	Signature Bank	New York	NY	Purchase	Preferred Stock w/Warrants	$120,000,000	Par
12/12/2008	HopFed Bancorp	Hopkinsville	KY	Purchase	Preferred Stock w/Warrants	$18,400,000	Par
12/12/2008	Citizens Republic Bancorp, Inc.	Flint	MI	Purchase	Preferred Stock w/Warrants	$300,000,000	Par
12/12/2008	Indiana Community Bancorp	Columbus	IN	Purchase	Preferred Stock w/Warrants	$21,500,000	Par
12/12/2008	Bank of the Ozarks, Inc.	Little Rock	AR	Purchase	Preferred Stock w/Warrants	$75,000,000	Par
12/12/2008	Center Financial Corporation	Los Angeles	CA	Purchase	Preferred Stock w/Warrants	$55,000,000	Par
12/12/2008	NewBridge Bancorp	Greensboro	NC	Purchase	Preferred Stock w/Warrants	$52,372,000	Par

CAPITAL PURCHASE PROGRAM
Transaction Report
Updated on December 16, 2008; 11:26 AM

Date	Seller			Transaction Type	Description	Price Paid	Pricing Mechanism
	Name of Institution	City	State				
12/12/2008	Sterling Bancshares, Inc.	Houston	TX	Purchase	Preferred Stock w/Warrants	$125,198,000	Par
12/12/2008	The Bancorp, Inc.	Wilmington	DE	Purchase	Preferred Stock w/Warrants	$45,220,000	Par
12/12/2008	TowneBank	Portsmouth	VA	Purchase	Preferred Stock w/Warrants	$76,458,000	Par
12/12/2008	Wilshire Bancorp, Inc.	Los Angeles	CA	Purchase	Preferred Stock w/Warrants	$62,158,000	Par
12/12/2008	Valley Financial Corporation	Roanoke	VA	Purchase	Preferred Stock w/Warrants	$16,019,000	Par
12/12/2008	Independent Bank Corporation	Ionia	MI	Purchase	Preferred Stock w/Warrants	$72,000,000	Par
12/12/2008	Pinnacle Financial Partners, Inc.	Nashville	TN	Purchase	Preferred Stock w/Warrants	$95,000,000	Par
12/12/2008	First Litchfield Financial Corporation	Litchfield	CT	Purchase	Preferred Stock w/Warrants	$10,000,000	Par
12/12/2008	National Penn Bancshares, Inc.	Boyertown	PA	Purchase	Preferred Stock w/Warrants	$150,000,000	Par
12/12/2008	Northeast Bancorp	Lewiston	ME	Purchase	Preferred Stock w/Warrants	$4,227,000	Par
12/12/2008	Citizens South Banking Corporation	Gastonia	NC	Purchase	Preferred Stock w/Warrants	$20,500,000	Par
12/12/2008	Virginia Commerce Bancorp	Arlington	VA	Purchase	Preferred Stock w/Warrants	$71,000,000	Par
12/12/2008	Fidelity Bancorp, Inc.	Pittsburgh	PA	Purchase	Preferred Stock w/Warrants	$7,000,000	Par
12/12/2008	LSB Corporation	North Andover	MA	Purchase	Preferred Stock w/Warrants	$15,000,000	Par

TOTAL $167,756,852,000

1/ Settlement deferred pending merger

KEY	
Date	When payment is authorized
Seller	Name, City and State of Qualified Institution
Transaction Type	Purchase or Sale
Description	e.g. Preferred Stock w/Warrants, Preferred Stock w/Senior Debt
Price Paid	Total Purchase Amount
Pricing Mechanism	e.g. Priced at par, auction price