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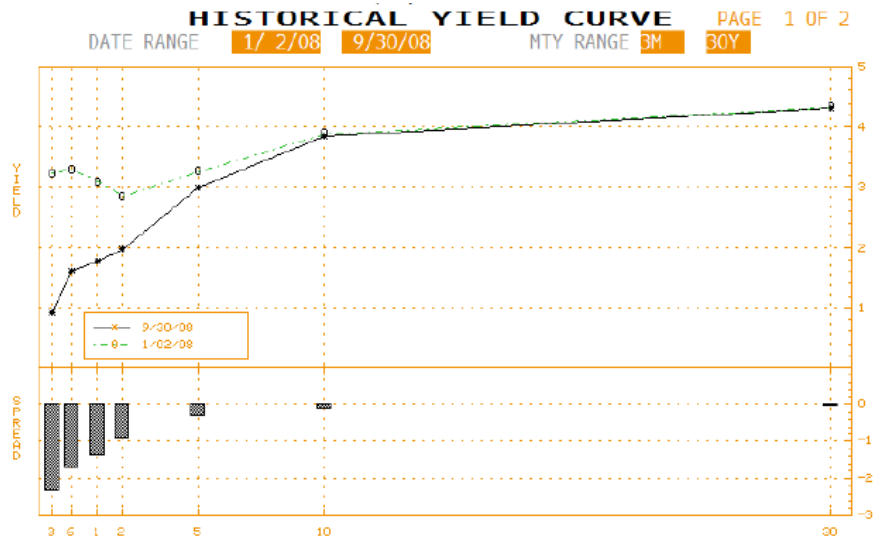
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# Changes in the Current Banking Environment

## HIGHLIGHTS



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*“The banking landscape has changed more in the last 10 days than in the last 10 years.”*

## **ABSTRACT**

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This paper describes the recent changes to the current banking environment. The current economic crisis stems from the decline in the value of houses and the resulting default on loans. Unemployment continues to rise, amplifying the concerns. Declines in the stock market and consumer confidence also play a role in defining the environment.

## **INTRODUCTION**

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Over the past few weeks, we have had significant changes to the “banking” landscape. These unprecedented changes have had a negative impact on consumers and businesses alike. Government action is necessary to stem the negative monetary flow and help regain confidence in the industry.

## **PROBLEM STATEMENT**

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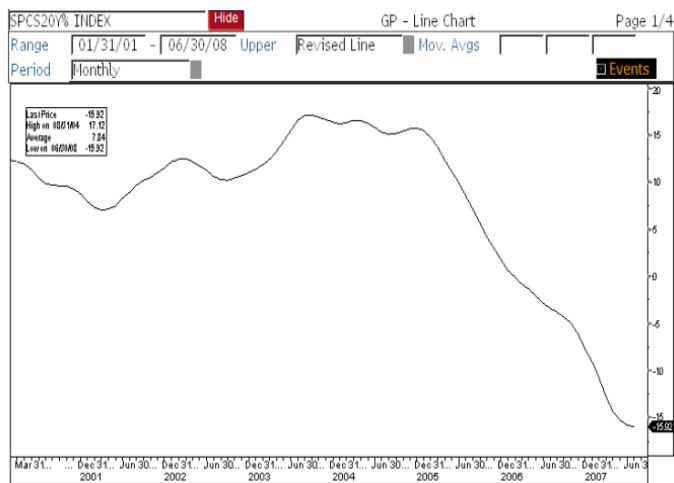
As of noon, Tuesday, October 7, 2008:

- Bear Stearns has failed
- Indy Mac Bank has failed
- Freddie Mac has been placed into receivership
- Fannie Mae has been placed into receivership
- Lehman Brothers has filed for bankruptcy
- Merrill Lynch has thrown in the towel and sold itself to Bank of America
- American International Group (AIG) has obtained an \$85 billion loan for 80% of the company from the United States Treasury
- Overnight borrowing rates between banks has jumped from the target rate of 2.00% to 6.22%
- The Reserve Primary Market Fund broke the buck

- The U.S. Treasury has provided an additional \$40 Billion to the Federal Reserve
- The U.S. Treasury has provided an additional \$640 Billion in liquidity to foreign central banks
- Putnam has closed an institutional money market fund due to withdrawals
- Bank of NY Mellon Cash fund broke the buck
- Morgan Stanley has become a bank
- Goldman Sachs has become a bank
- Washington Mutual has been placed into receivership and given to JP Morgan/Chase
- Wachovia Bank has been sold to CITI Group with the FDIC guaranteeing loans
- National City Bank is rumored to be up for sale
- The government has passed a \$700 billion asset purchase plan
- Detroit's big three automakers and suppliers have received \$25 billion in government guaranteed loans

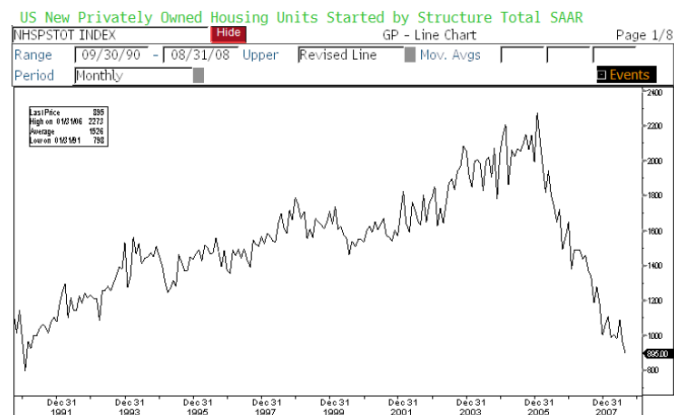
The magnitude of the changes in the banking industry is unprecedented. We have had the FDIC take over banks on three separate days of the week – Friday, Sunday and Thursday (this is usually reserved for Fridays only).

The problems stem from the decline in the value of houses and the resulting default on loans. Home values continue to decline, causing greater losses for banks when selling foreclosed assets. Please see the following chart from the S&P Case-Shiller® top 20 cities home value index. The chart indicates that home values were increasing at a 15% annual rate, and are now decreasing at a rate over 15%



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The rate of new home starts has declined to the same level as in 1990. New home starts have declined from a record of just over 2.2 million annual starts in 2005 to an 18 year low of nearly 850 thousand.



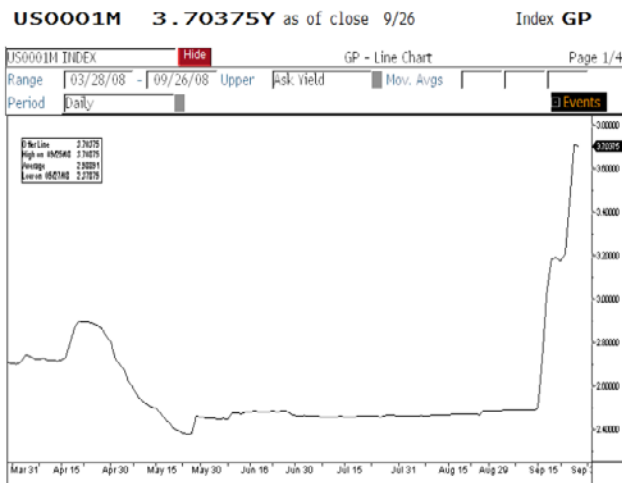
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With the current economic crisis and the freezing of the credit markets, unemployment continues to rise. U.S. unemployment is up sharply from recent lows of 4.50% to 6.10%. As the economic situation unfolds we expect unemployment to continue to increase.



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One point of contention is the behavior of one month LIBOR (London Inter Bank Offering Rate), or our equivalent of Fed Funds. On average, LIBOR is within 10 basis points of Fed Funds. Over the last few days, it has jumped up to 3.70% while Fed Funds remain at 2.00%. This is highlighting the credit crunch and significant liquidity crisis.



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*“The full effects of the housing and credit market crisis can be felt by nearly all industries.”*

## CONCLUSION

Unfortunately, we do not believe that the problems are close to being over. We see at least two issues extending the housing and credit crisis:

1. Greater reductions in property values than what the government is reporting. We are being told of valuation declines in over 40% in some metropolitan areas. Also, it takes time for foreclosures to mature into OREO properties (nearly 9 months in Michigan versus 4 weeks in West Virginia) which we expect will add to the price decline. We continue to be concerned about residential development in several states.
2. The Midwest was the first into the housing price decline – we have been in decline for a little over two years. The South and West regions of the country began their decline approximately 9 to 12 months ago. Until recently, the housing crisis was a Michigan and Midwest problem. While the housing crisis was severe for this region, the actual housing price increases prior to the crisis were the smallest in the nation. Conversely, the South and Southwest have had the biggest housing gains over the past few years, and the largest growth of new homes. These areas have fallen into foreclosure and home prices have spiraled downwards. This decline could be even more traumatic to the economy than what happened in the Midwest, because of their earlier growth rates. Unfortunately, the spiral is still in the early stages.

We believe that the problems will continue to grow across the nation. The full effects of the housing and credit crisis can be felt by nearly all industries and touch all people in all states of this great country.

### About McQueen Financial Advisors, Inc.

McQueen Financial Advisors, Inc. (MFA) is a leading nationwide provider of financial advisory services that has been serving financial institutions since 1999. An SEC-registered investment advisory firm, MFA works only for financial institutions. We provide our services to institutions throughout the United States, with assets ranging from \$20 million to over \$5 billion.

#### Charles N. McQueen, President

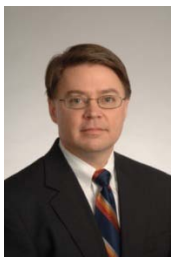
Charley founded McQueen Financial Advisors in 1999, to provide specialized financial advisory and portfolio services. Charley has more than 15 years of experience service as a portfolio manager, asset liability management consultant and strategic consultant. Charley serves on the Associate Advisory Council of the Michigan Association of Community Banks, is a frequent speaker at financial institution conferences, and has provided training and board education on investments, Asset/Liability Management, Mortgage Servicing Rights Valuations, branch valuations and strategic planning.



#### Craig Silicia, Vice President

Craig is McQueen Financial Advisors Chief Investment Officer and head portfolio manager. He is responsible for overseeing the firm's security transactions which average over \$700 million a year in purchases and sales. Along with portfolio management and security analysis, Craig consults with clients on risk management, loan sales, servicing valuations on commercial loans and customized consulting projects. Craig oversees the McQueen Financial Advisors loan sales team, where he has helped sell all types of loans for clients.





James G. Craven, Financial Advisor

Jim is responsible for overseeing the firm's Mortgage Servicing Rights Valuation department. He also provides financial analysis and is a chief member of our investment portfolio management team. Prior to joining McQueen Financial Advisors, Jim worked at JPMorgan, where he was a member of the Bank Strategies Group. In that capacity, he provided analytics and fixed income investments primarily to banks, credit unions, insurance companies and investment advisors. While at JPMorgan, he also consulted clients on derivatives and structured financing.



Diane E. Knudson, Marketing Consultant

Diane is responsible for managing and directing all of McQueen Financial Advisors, Inc. marketing campaigns and client marketing programs, as well as providing Strategic Consulting services. Diane began her career in the business-to-business telemarketing industry. As a Marketing Manager, she was responsible for developing, implementing and launching marketing campaigns, developing and evaluating benchmarks and marketing channels, and advising on corporate marketing strategies.



Heather L. Ciurla, V.P. of Operations & Chief Compliance Officer

Heather joined McQueen Financial Advisors, Inc. as an Investment Advisor, and is the firm's Chief Compliance Officer. Heather is responsible for Asset/Liability Management reporting, and Strategic Consulting services. Heather is also a seasoned portfolio manager assisting in daily trading activities.

Heather N. Schepperly, Office Manager

Heather joined McQueen Financial Advisors in 2008 after working for the past sixteen years in the customer service industry. Heather is responsible for all areas of office management, as well as assisting with Asset Liability Management, Investment Portfolio Management and Mortgage Servicing Rights Valuation services.

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