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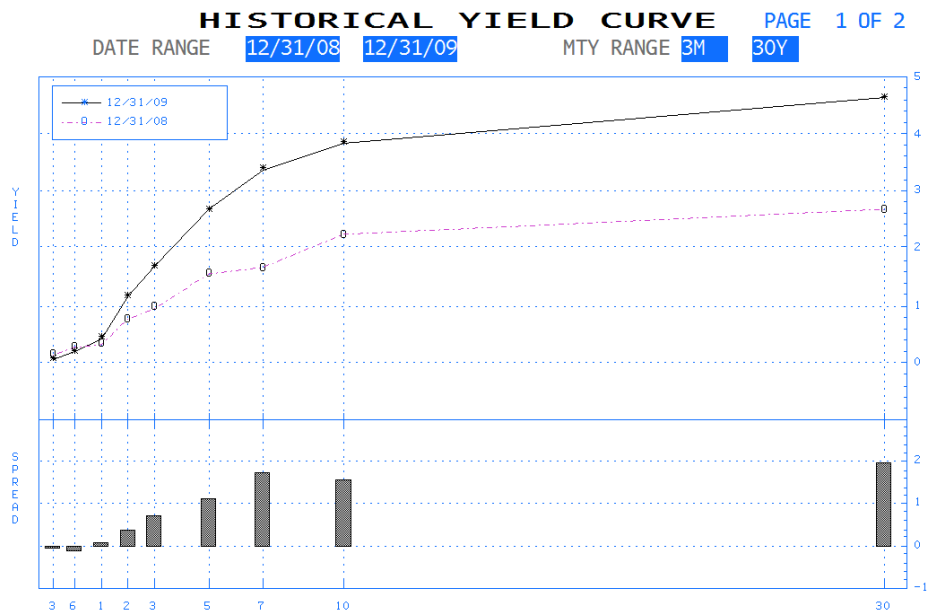
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# Economic Outlook

## HIGHLIGHTS



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*“The decline in the housing market, combined with a high unemployment rate will cause the FOMC to leave the Fed Funds rate at 25 basis points for 2010.”*

## ABSTRACT

This paper provides our 2010 interest rate and economic forecast for our clients.

## Housing

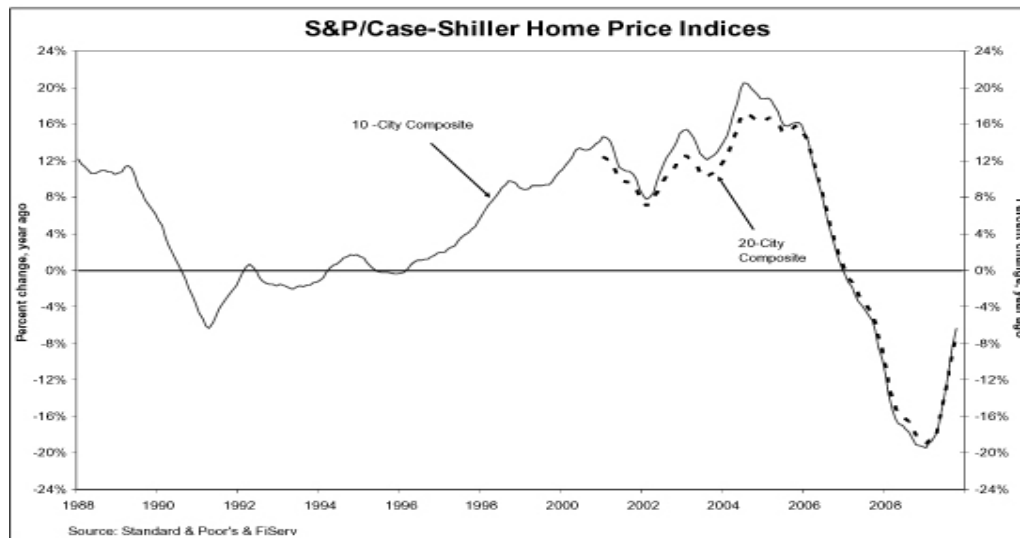
While Michigan has had a substantial reduction in housing values, Valejo, California is called ground zero for the housing value readjustment. Other areas that are close include Las Vegas, Nevada, Atlanta, Georgia, and the entire southern half of Florida. Please see the chart below:

| Metropolitan Area | October 2009<br>Level | October/September<br>Change (%) | September/August<br>Change (%) | 1-Year Change (%) |
|-------------------|-----------------------|---------------------------------|--------------------------------|-------------------|
| Atlanta           | 110.12                | -1.0%                           | 0.0%                           | -8.1%             |
| Boston            | 154.70                | -0.6%                           | -0.2%                          | -2.8%             |
| Charlotte         | 119.05                | -0.7%                           | -0.7%                          | -7.0%             |
| Chicago           | 130.78                | -1.0%                           | 1.2%                           | -10.1%            |
| Cleveland         | 104.97                | -0.7%                           | -1.6%                          | -3.5%             |
| Dallas            | 119.90                | -0.6%                           | -0.7%                          | -0.6%             |
| Denver            | 128.91                | -0.4%                           | -0.5%                          | -0.1%             |
| Detroit           | 73.07                 | 0.2%                            | 1.8%                           | -15.1%            |
| Las Vegas         | 104.70                | -0.1%                           | -0.9%                          | -26.6%            |
| Los Angeles       | 168.43                | 0.3%                            | 0.8%                           | -6.3%             |
| Miami             | 149.09                | -0.4%                           | 0.5%                           | -14.0%            |
| Minneapolis       | 124.51                | -0.5%                           | 1.9%                           | -8.4%             |
| New York          | 175.01                | 0.0%                            | -0.1%                          | -7.7%             |
| Phoenix           | 110.71                | 1.3%                            | 0.8%                           | -18.1%            |
| Portland          | 149.88                | 0.1%                            | -0.5%                          | -9.9%             |
| San Diego         | 155.37                | 0.4%                            | 0.9%                           | -2.4%             |
| San Francisco     | 135.81                | 1.2%                            | 1.3%                           | -2.6%             |
| Seattle           | 149.26                | 0.2%                            | -0.4%                          | -12.4%            |
| Tampa             | 140.27                | -1.6%                           | -0.6%                          | -15.2%            |
| Washington        | 179.71                | -0.4%                           | 0.5%                           | -2.8%             |
| Composite-10      | 158.82                | 0.0%                            | 0.5%                           | -6.4%             |
| Composite-20      | 146.58                | 0.0%                            | 0.4%                           | -7.3%             |

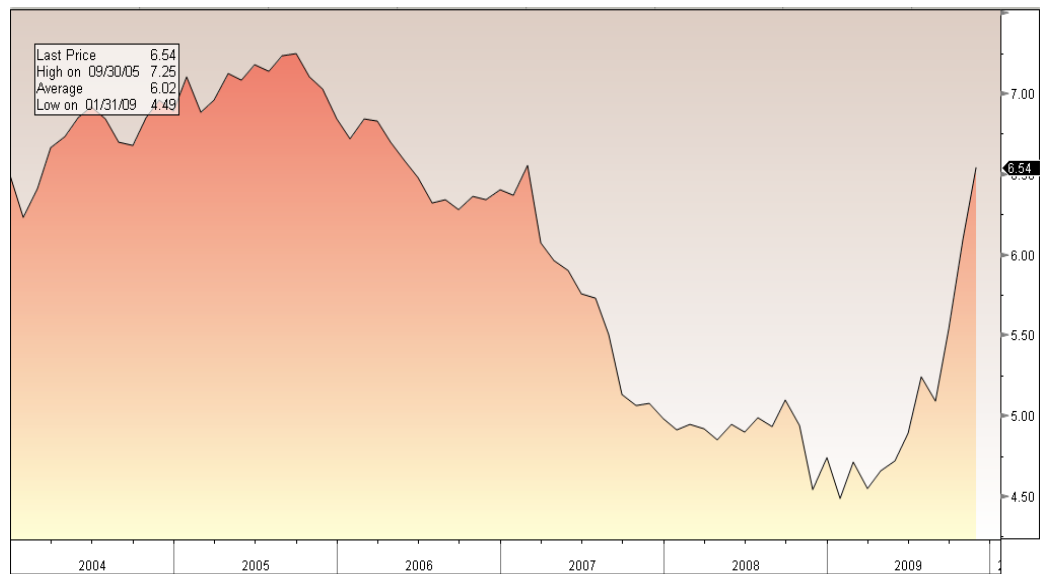
*Source: Standard & Poor's and Fiserv  
Data through October 2009*

The housing problems have created a recession as homeowners are foreclosed on and credit has become tight. This credit problem has spread rapidly to all corners of the globe, resulting in a global economic slowdown.

Home prices have begun to stabilize, as the decline in values approaches zero. The S&P/Case-Shiller Home Price index displays the year over year price change. Please see the chart below.



We have also seen the number of existing home sales significantly increase, giving us further belief that values are stabilizing.



Millions of units sold – Existing homes only.

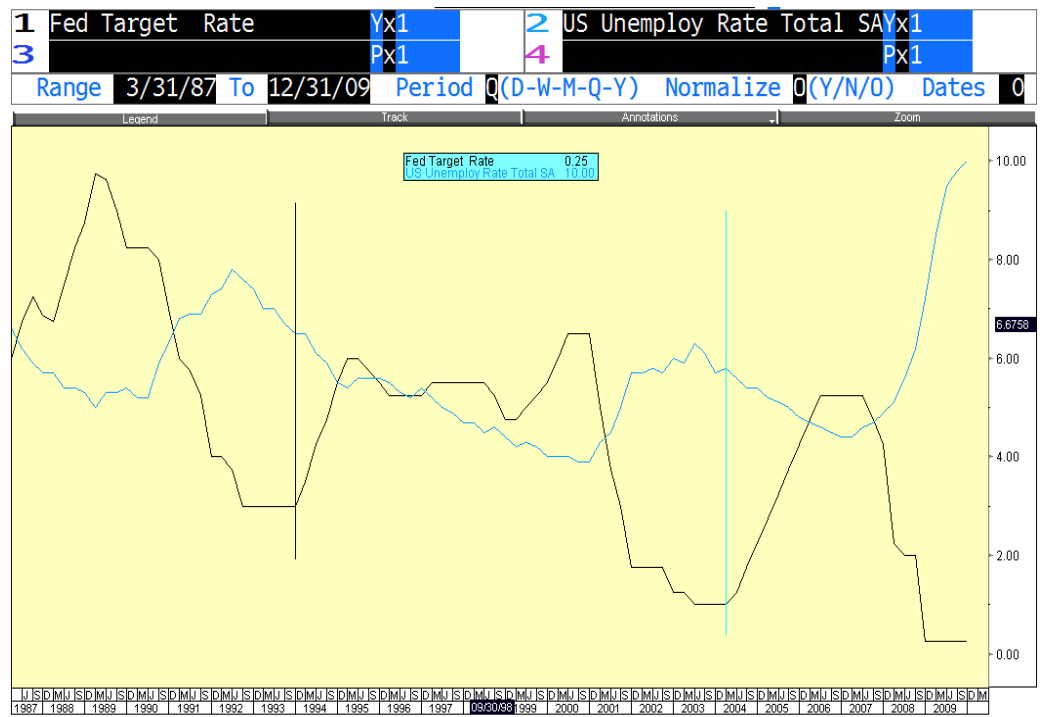
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### Employment

The Federal Open Market Committee (FOMC) has stated that they expect to keep the Federal Funds rate unchanged for the foreseeable future. We agree with this statement, as unemployment is a significant concern.

The following graph compares unemployment and fed funds since 1987. There are two vertical lines that show the first positive change in the Fed Funds rate. As you can see, the FOMC did not increase the Fed Funds rate until there was a decline in the unemployment rate.

We do not expect the FOMC to raise interest rates until we have a reduction in the unemployment rate for at least six months.



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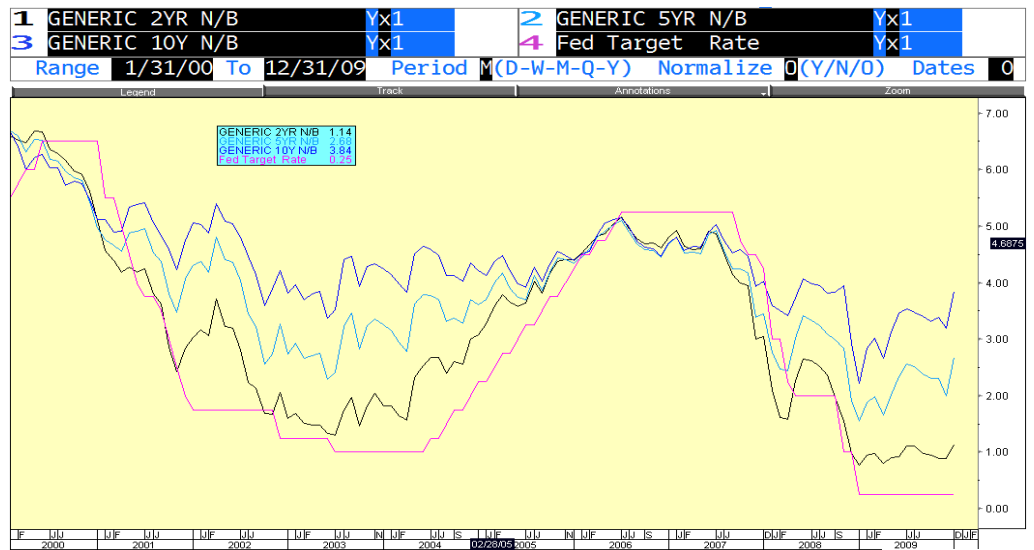
### Yields

Interest rates have risen from the all time record lows established at the end of 2008 and the beginning of 2009. The yield curve is currently very steep, reaching a record of 285 basis points between the 2 year and the 10 year treasury. Please see the following charts.



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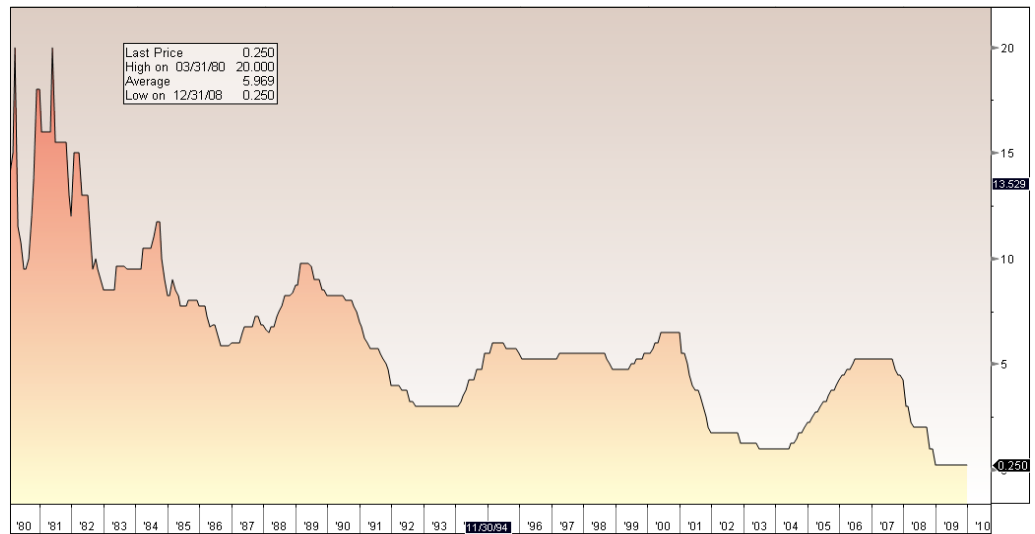
As we proceed through the economic cycle, we see the resemblance of the 2000 recession.



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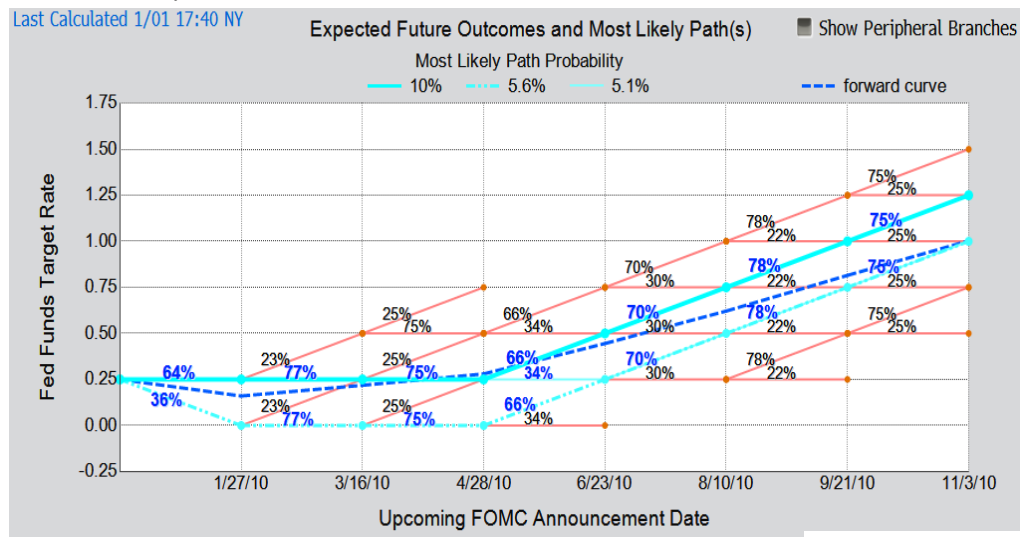
As you can see, the FOMC kept the fed funds rate low for nearly 2 years with the 2002 – 2003 recessions. Given the current economic position, we expect rates to remain low for a significant period of time.

The Federal Reserve is working hard at helping to fix the economic environment and create a positive sloped yield curve by reducing short term interest rates. The Federal Funds rate has remained at 0.25% for a year.



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The Fed Funds futures do point to a potentially higher rate of 1.25% by 11/03/10. We, however, do not see rates rising as projected by the forward yield curve.



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The forward yield curve always displays rising interest rates when the yield curve is positively sloped.

## CONCLUSION

The Federal Reserve is working hard to fix the U.S. economy with interest rate cuts and the Emergency Economic Stabilization Act of 2008 (EESA). Under the EESA, the following programs were created: TARP, CPP, CBLI, PPIP, and CAP. As the Federal Reserve unwinds the liquidity programs (especially the programs that purchase mortgages), we expect medium to longer term interest rates to rise.

We do not expect the FOMC to raise the Fed funds rate, as the unemployment rate is very high, asset valuations are low, and the housing problem is still menacing to financial institutions.

McQueen Financial Advisors' economic outlook for 2010.

|                         | Current<br>12/31/2009 | Projected     |              |              |             |
|-------------------------|-----------------------|---------------|--------------|--------------|-------------|
|                         |                       | March<br>2010 | June<br>2010 | Sept<br>2010 | Dec<br>2010 |
| Fed Funds               | 0.250                 | 0.250         | 0.250        | 0.250        | 0.250       |
| Prime Rate              | 3.250                 | 3.250         | 3.250        | 3.250        | 3.250       |
| <b>Treasuries</b>       |                       |               |              |              |             |
| 3 Month                 | 0.067                 | 0.117         | 0.167        | 0.217        | 0.257       |
| 6 Month                 | 0.176                 | 0.226         | 0.276        | 0.326        | 0.366       |
| 1 Year                  | 0.418                 | 0.468         | 0.518        | 0.668        | 0.808       |
| 2 Year                  | 1.058                 | 1.058         | 1.358        | 1.658        | 2.058       |
| 3 Year                  | 1.648                 | 1.648         | 1.848        | 2.048        | 2.398       |
| 5 Year                  | 2.633                 | 2.683         | 2.853        | 3.053        | 3.313       |
| 7 Year                  | 3.360                 | 3.410         | 3.480        | 3.630        | 3.840       |
| 10 Year                 | 3.848                 | 3.998         | 4.098        | 4.248        | 4.348       |
| 30 Year                 | 4.641                 | 4.791         | 4.891        | 5.041        | 5.141       |
| 30 Year Conv. Mtg       | 5.13                  | 5.23          | 5.43         | 5.63         | 5.83        |
| US Unemp. Rate          | 10.00                 | 10.10         | 10.20        | 10.10        | 9.70        |
| MI Unemp. Rate          | 15.10                 | 15.20         | 15.10        | 15.00        | 14.60       |
| WV Unemp. Rate          | 8.40                  | 8.50          | 8.40         | 8.30         | 8.10        |
| CPI X F&E               | 1.70                  | 1.75          | 1.85         | 1.95         | 2.10        |
| US Mthly Housing Starts | 574,000               | 489,000       | 501,000      | 525,000      | 595,000     |



### 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 McQueen founded McQueen Financial Advisors in 1999 to provide specialized services to financial institutions. Charley has more than 16 years of experience serving as a portfolio manager, asset liability management consultant and strategic consultant to financial institutions. Today, his company advises more than 100 clients and manages investment portfolios with a combined value of nearly \$1 billion. McQueen Financial Advisors serves clients in thirteen states across the United States.

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, asset sales and strategic planning. Along with providing education to financial institutions, Charley provides educational training to several CPA firms. He is a frequent presenter to financial institutions boards, attending well over 1,300 client board meetings.

Charley is a graduate of Western Michigan University, with a BBA in Management and a minor in Economics.



**Craig M. Sicilia, Managing Director**

Craig is McQueen Financial Advisors chief investment officer and head portfolio manager. He is responsible for overseeing the firm's security transactions that average nearly \$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.

Previously, Craig was Vice President at JPMorgan Securities, Inc. He was a member of a Financial Strategies team in Detroit, Michigan and responsible for managing relationships with banks, credit unions, taft-hartleys, municipalities and schools. The majority of his time was spent assisting clients with asset allocation, investment analysis, portfolio structuring, security sales and interest rate risk decisions. Craig worked for J.P. Morgan (formerly Bank One, First Chicago NBD Corp, NBD Bank) from January 1991 through March 2006.

Craig is a graduate of Oakland University, with a BBA in Management.

**James G. Craven, Vice President**

Jim is an investment advisor whose responsibilities include interest rate risk management, consulting, portfolio management, fixed income analysis and valuation services. Jim also manages the firm's Mortgage Servicing Rights Valuation division and has completed hundreds of valuations for institutions around the country, including bank valuation for goodwill impairment testing.

Jim has over 20 years of experience in the financial services industry. Prior to joining McQueen Financial Advisors, Jim worked at Fifth Third Securities and JPMorgan Chase (and successor firms). At JPMorgan, he was a member of the Bank Strategies Group. In that capacity, Jim provided analytics and fixed income investments primarily to banks, credit unions, insurance companies and investment advisors. While at JPMorgan, Jim also consulted clients on derivatives and structured financing.

Jim is a 1983 graduate of Eastern Michigan University.





**Heather L. Ciurla, Vice President 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 general consulting services. Heather is also a seasoned portfolio manager assisting in daily trading activities. Heather started in the investment business in 1999, working with JPMorgan Chase & Co. in Delaware as an investment agreement manager for municipalities.

Heather has a bachelor’s degree in Business Administration in Economics from Western Michigan University.



**Heather N. Schepperly, Financial Analyst**

Heather is a financial analyst providing analysis expertise to McQueen Financial Advisors team of advisors.

Heather joined McQueen Financial Advisors in 2008 after working for the past eight years in management support, financial analysis, statistical analysis and Program Management.

Heather is a graduate of Central Michigan University.



**Sarah L. Mezey, Analyst**

Sarah is a financial analyst at McQueen Financial. She is responsible for supporting the day-to-day trading activities as well as the month end reporting for investment portfolio clients.

Previous to working for McQueen Financial Advisors, Sarah has interned in the credit department at The Private Bank and as a market researcher at Ducker Worldwide.

Sarah is a graduate of Boston College, with a degree in Mathematics and French.

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