

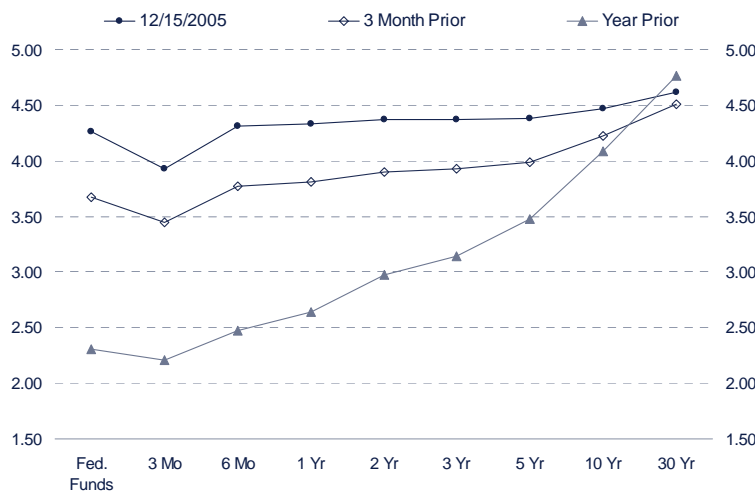
## General Economic Trends

- 2005 was marked by a devastating hurricane season whose impact on the U.S. economy has still to be clearly quantified.
- The resulting spike in gas and heating oil prices has led to the lowest consumer confidence in 15 months.
- The Federal Reserve pushed the Fed Funds rate to the highest level in 4½ years to 4.25% while signaling that the campaign to raise interest rates to fight inflation was drawing to an end. It was the 13th consecutive quarter-point move since the Fed began raising interest rates in June 2004, when the funds rate was at a 46-year low of 1%.
- Overall, the economy is expected to grow at a slower pace, albeit with GDP and Housing Starts still stronger than 2001 and 2002 levels.
- The yield curve remains flat with the 10-Year treasury vs. 3-month Libor spread at only 58 bps, compared to 213 bps a year ago.
- Banks, Thrifts and Specialty Lenders continue to outperform the S&P500, but the current interest rate environment may reverse this trend.

### Inside this Issue:

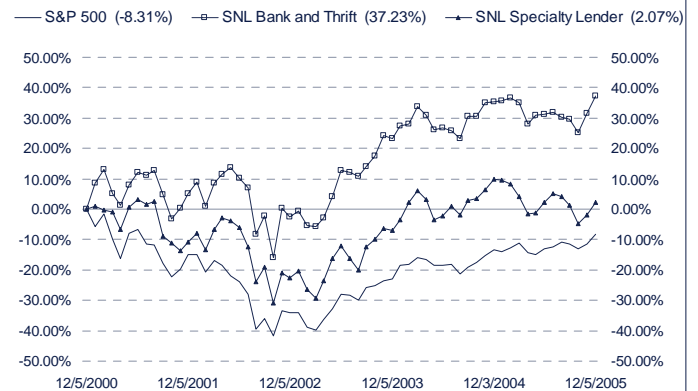
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### Treasury Yield Curve



Source: SNL Financial

### Price Change



### Mortgage Originations (\$trillions)



Source: Mortgage Bankers Association

	2001	2002	2003	2004	2005	2006F
Real GDP	0.8%	1.9%	3.0%	4.4%	3.6%	3.4%
CPI	2.8%	1.5%	2.3%	2.6%	2.7%	2.3%
Unemployment	4.8%	5.8%	6.0%	5.5%	5.0%	4.8%
Housing Starts (millions)	1.60	1.71	1.85	1.95	2.02	1.91
Originations (trillions)	2.24	2.85	3.81	2.59	2.83	2.57



## Mortgage Finance

- The six largest mortgage company transactions announced in 2005 involved lenders in different sectors of mortgage origination – Sub-Prime (New Century/RBC), Alt-A (AmNet), Prime (United Financial), Consumer Direct (E-loan), Homebuilder (KB Homes), and REIT (Bimini).
- Two of the sellers were publicly-traded companies with low price-to-book valuations.
- New deals in progress include the sale of Centex Home Equity and RFC-GMAC, both of which are being sold as part of a corporate re-positioning by their parent.

### Residential Mortgage 2005 Selected M&A Deals

Buyer Name	Seller Name	Announce Date	Origination Volume (\$B)	Deal Value (\$M)	Price/Book (%)	Price/ LTM Earnings (x)
KeyCorp	ORIX Corporation	11/16/2005	NA	NA	NA	NA
PHH Corporation	CUNA Mutual Group	10/3/2005	NA	NA	NA	NA
Bimini Mortgage	Opteum Financial	09/29/2005	7.2	81.2	135.3	6.0
Wachovia	AmNet Mortgage Inc.	09/13/2005	9.0	83.0	111.6	NM
Airlie Opportunity Master Fund	United Financial Mortgage	09/06/2005	6.0	35.7	110.8	8.3
Popular, Inc.	E-Loan, Inc.	08/03/2005	5.0	296.3	312.5	NM
Countrywide Financial Corp	KB Home	06/30/2005	4.2	NA	NA	NA
New Century Financial	Royal Bank of Canada	05/27/2005	17.2	NA	NA	NA
Friedman, Billings, Ramsey	First NLC Financial Services	01/10/2005	1.7	88.0	447.1	4.6
<b>Mean</b>			<b>7.2</b>	<b>116.8</b>	<b>223.5</b>	<b>6.3</b>

Source: SNL Financial

## Spotlight Deals

### New Century Financial / RBC Mortgage

- This transaction represented the marriage of one of the nation's largest subprime wholesale mortgage lenders (New Century) with one of the nation's largest prime retail mortgage lenders (RBC Mortgage), creating a broadly diversified top 10 lender.
- The acquisition was also the first major purchase by a public residential mortgage REIT since most of the REIT's either filed for IPO or converted to REIT status in 2003 and 2004.

### Countrywide / KB Home Mortgage

- This transaction marked the first time a top 5 homebuilder has exited the captive lending business.
- Under the transaction announced in June, Countrywide acquired KB Home Mortgage and set up an ongoing Joint Venture with KB Homes.
- KB hopes to tap into Countrywide's broader product mix and more efficient fulfillment capabilities to drive higher volumes and margins, and lower operating expenses.



## Consumer Finance

- AmeriCredit, one of the nation's leading sub-prime auto finance companies, acquired Bay View Acceptance, a niche, prime, auto finance company. While the acquisition is outside of the Company's core sub-prime market, it provides AmeriCredit with an additional growth platform for the future and immediately broadens its potential market.
- cars4U Ltd., one of Canada's largest auto finance companies, acquired Colorado based Pawnee Leasing Corp. a small-ticket equipment leasing company. The acquisition is a nice complimentary business to cars4U's existing auto finance and leasing businesses and provides cars4U an inroad into the US market.
- Nelnet continued to bolster its student lending operations and portfolio business with the acquisition of LoanSTAR Funding Group and the assets of Chela, respectively. The two acquisitions add \$3.2 billion to Nelnet's existing \$31.3 billion managed receivables.
- CompuCredit's acquisition of CardWorks includes two subsidiaries: Merrick Bank and Cardholder Management Services. This transaction will give CompuCredit direct access to lower-cost bank deposits to fund its credit card business.

### Consumer Finance 2005 Selected M&A Deals

Buyer Name	Seller Name	Announce Date	Managed Receivables (\$B)	Deal Value (\$M)	Price/Book (%)	Price/ LTM Earnings (x)
Bank of Nova Scotia	General Motors Corporation	12/05/2005	3.00	NA	NA	NA
General Electric Co.	Belk credit card operations	11/21/2005	0.50	500.0	NA	NA
AmeriCredit Corp.	Bay View Acceptance Corp.	11/07/2005	0.68	62.5	100.0	NA
cars4U Ltd.	Pawnee Leasing Corp.	10/24/2005	NA	57.9	NA	NA
Nelnet Inc.	LoanSTAR Funding Group Inc.	10/03/2005	0.85	173.6	NA	NA
CompuCredit Corp.	CardWorks LP	09/25/2005	NA	270.0	207.5	7.1
Wachovia Corporation	Westcorp	09/12/2005	NA	3,417.0	224.0	14.3
HSBC Holdings, plc	Metris Companies, Inc.	08/04/2005	5.93	1,542.6	185.6	23.1
Bank of America Corporation	MBNA Corporation	06/30/2005	116.62	35,707.5	280.4	16.4
Washington Mutual, Inc.	Providian Financial Corporation	06/06/2005	18.09	6,854.8	160.7	13.4
White River Capital, Inc.	Coastal Credit, LLC	03/09/2005	0.06	50.0	313.1	7.5
<b>Mean</b>			<b>18.22</b>	<b>4,863.6</b>	<b>210.2</b>	<b>13.6</b>

Source: SNL Financial

### Spotlight Deal: Wachovia / Westcorp

- The transaction included the acquisition of Westcorp and business unit WFS Financial.
- Provides Wachovia with scale in its auto finance business and an entry point in Southern California.
- The deal will make Wachovia the ninth-largest auto loan originator in the United States, and the bank will add roughly 8,500 automobile dealer clients, approximately 920,000 individual customers and 19 retail banking offices in Southern California.



## Bank & Thrift

- Thus far in 2005, there have been 206 deal announcements, representing a drop of 14% from the 239 deals announced in 2004.
- The industry continues to be burdened by margin pressures and regulatory burden.
- Nevertheless, deals continue to be a hallmark of this sector.
- Despite a drop in deal volume, deal multiples increased in 2005 versus 2004.
- Average Price/Book for the industry increased from 214% in 2004 to 223% in 2005, representing a 4% increase.
- Average Price/LTM Earnings increased from 25.4% in 2004 to 25.9% in 2005, representing a 2% increase.

### Bank & Thrift 2005 Selected M&A Deals

Buyer Name	Seller Name	Announce Date	Total Assets (\$B)	Deal Value (\$M)	Price/ Book (%)	Price/ LTM Earnings (x)
Susquehanna Bancshares, Inc.	Minotola National Bank	11/14/2005	0.6	166.1	205.7	25.5
Marshall & Ilsley Corporation	Gold Banc Corporation, Inc.	11/09/2005	4.1	714.7	260.2	15.6
Sovereign Bancorp, Inc.	Independence Community Bank	10/24/2005	18.5	3,591.2	152.5	15.7
New York Community Bancorp	Atlantic Bank of New York	10/10/2005	3.0	400.0	147.5	10.6
Compass Bancshares, Inc.	TexasBanc Holding Company	09/19/2005	1.5	459.2	389.4	25.7
Fulton Financial Corp.	Columbia Bancorp	07/26/2005	1.3	310.7	324.8	20.9
TD Banknorth Inc.	Hudson United Bancorp	07/11/2005	8.9	1,898.7	360.4	15.1
Zions Bancorporation	Amegy Bancorporation, Inc.	07/05/2005	7.6	1,709.7	284.2	23.6
Capital One Financial Corp.	Hibernia Corporation	03/07/2005	22.1	4,977.4	231.0	15.3
<b>Mean</b>			<b>7.5</b>	<b>1,580.9</b>	<b>261.7</b>	<b>18.6</b>

Source: SNL Financial

### Spotlight Deal: Susquehanna Bancshares / Minotola National Bank

- Susquehanna Bancshares has agreed to acquire Minotola National Bank in a deal that is expected to be accretive in 2006. Upon completion Minotola will become the Minotola Region of Susquehanna Patriot Bank. Susquehanna Bancshares will enter Atlantic County, N.J., ranked No. 7 with 4.6% of \$4.6 billion in market deposits, Cumberland County ranked No. 2 with 15.7% of \$1.8 billion and Gloucester County ranked No. 8 with 3.7% of \$3.7 billion. The deal is Susquehanna Bancshares' first bank purchase since it acquired Patriot Bank Corp. in 2004 (excerpt from SNL release).

**For a complete list of recent Milestone Bank & Thrift transactions, visit:**

**[www.milestonecap.com](http://www.milestonecap.com)**



## Commercial Finance

- The 2005 commercial finance M&A environment can be characterized as one with transactions both big and small as large commercial finance mainstays exited business lines (SunTrust selling its factoring business to CIT) and banks sought higher risk-adjusted returns during a flat yield curve (Discovery Bancorp buying Celtic Capital Corp.).
- Additionally, financial investors who typically cannot compete for commercial finance transactions due to a lack of cost of funds synergy, entered the factoring and asset based lending space in 2005, as evidenced by Perry Capital, an \$11 billion investment company, acquiring Capital Factors from Regions Financial Corp.
- Banks continue to focus on the day one accretion that comes with commercial finance transactions – after layering in a lower cost of funds, such as bank deposits, purchase price multiples on adjusted earnings may be half as much as purchase price as a multiple of stated earnings. This results in a highly accretive transaction for the buyer and a strong sale multiple for the seller.
- 2006 will continue to be a seller's market due to bank demand for high yielding assets.

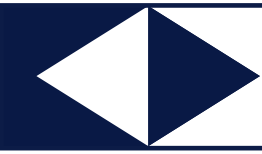
### Commercial Finance 2005 Selected M&A Deals

Buyer Name	Seller Name	Announce Date	Managed Receivables (\$M)	Deal Value (\$M)	Price/ LTM Earnings (x)
Investor group	CIT Group Inc.	11/09/2005	295.0	NA	NA
Cornerstone Bancshares, Inc.	Eagle Financial LLC	10/31/2005	NA	NA	NA
Command Staffing LLC	Temporary Financial Services	10/06/2005	0.5	NA	NA
QCR Holdings, Inc.	State Financial Services Corp.	08/12/2005	NA	5.3	NA
CIT Group Inc.	Semele Group Inc.	08/04/2005	NA	119.8	NM
CIT Group Inc.	Healthcare Business Credit	07/19/2005	NA	NA	NA
Sovereign Bancorp, Inc.	Business Alliance Capital Corp.	06/06/2005	NA	NA	NA
Bancorp Rhode Island, Inc.	Macrolease International Corp.	05/01/2005	NA	1.9	NA
Perry Capital LLC	Capital Factors	04/05/2005	400.0	NA	NA
CIT Group Inc.	SunTrust Banks, Inc.	03/31/2005	864.0	NA	NA
Marquette Financial Co.	Regions Financial Corp.	02/09/2005	87.5	NA	NA
Discovery Bancorp	Celtic Capital Corp.	01/27/2005	22.1	1.7	20.48
State Financial Services Corp.	m2 Lease Funds LLC	01/05/2005	NA	3.6	NA
<b>Mean</b>			<b>278.2</b>	<b>26.5</b>	<b>20.5</b>

Source: SNL Financial

### Spotlight Deal: Sovereign Bancorp / BACC

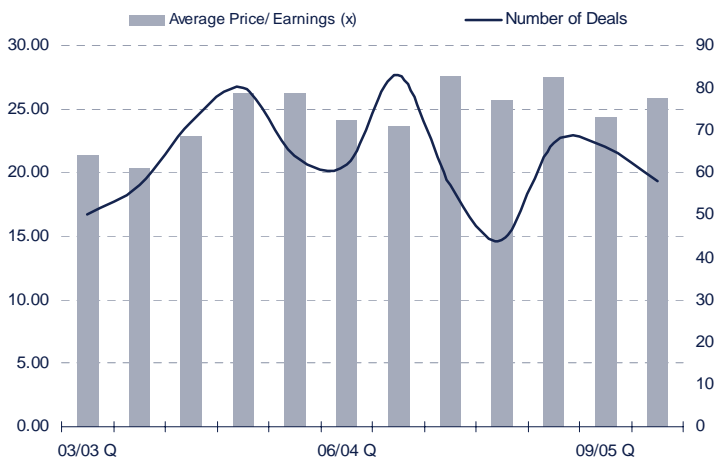
- Sovereign Bancorp, which previously operated an asset based lending division focused on larger, syndicated asset based transactions, acquired Business Alliance Capital Corp. (BACC) to move down market to the small loan size, higher coupon niche.
- BACC's shareholders felt that M&A pricing was at or near a peak and the idea of partnering with a large bank who could help them substantially grow outstandings while also providing a lower cost of funds was very attractive.
- The transaction has worked because Sovereign lets BACC's management continue to operate the company the way they did as an independent – pricing, underwriting, and credit decisions all occur at BACC, rather than at the bank level, ensuring continued efficiency and profitability.



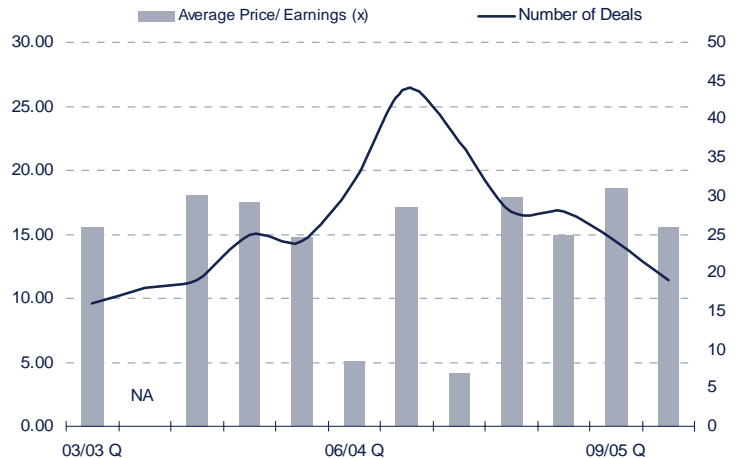
## M&A Trends

- The Third Quarter of 2005 saw a marked increase in M&A activity in both mortgage banking and commercial banking. Continued rate increases by the Federal Reserve and a flattening yield curve, have led to both margin compression on loan portfolios and a slow-down in refinance-driven origination activity.
- The subprime, REIT, and wholesale lending sectors have been the most negatively impacted by these latest trends, with gain-on-sale margins falling significantly on new production. Stock prices among the publicly-traded mortgage banks and REITs have fallen substantially, as has M&A transaction pricing in general.
- Industry forecasts are for 2006 mortgage origination volume to be down between 15% to 20% from 2005, and many lenders are already feeling the effects of excess production capacity. Price wars are being fought by lenders trying to maintain market share and margins are down across all sectors of loan origination. Top 10 lenders continue to aggressively recruit retail loan officers with large multi-year sign-on bonuses being offered to star performers.
- On the Bank and Thrift front, net interest margin pressure and increased regulatory burdens are leading many institutions to consider a sale. Regional and super-community banks have stronger currency to pursue transactions with their stock prices reflective of the acquisition growth potential. High pricing in many markets, including Texas and Florida are keeping some would-be acquirors on the sideline.
- The net effect of these factors is, in general, a favorable environment for M&A activity, with sellers motivated to align their franchises with larger organizations and buyers attracted by the opportunity to grow their franchise via more reasonably-priced acquisitions.

**Deal Statistics for Bank & Thrift**



**Deal Statistics for Specialty Finance**



Source: SNL Financial

## 2005 Milestone Transactions

 <p><b>MATRIX BANCORP</b> Innovative Financial Services</p> <p>has completed a Private Placement of <b>5,120,000 shares of Common Stock</b> \$19.00 Per Share December 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Matrix Bancorp in connection with its private placement.</p> <p> MILESTONE</p>	 <p>has entered into a Definitive Agreement to be acquired by</p>  <p>December 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Access Lending Corporation in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has entered into a Definitive Agreement to be acquired by</p>  <p>November 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Minotola National Bank in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has sold an 80% interest to</p>  <p>September 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Compliance, Inc. in connection with this transaction.</p> <p> MILESTONE</p>
 <p>has sold selected assets of its subsidiary, RBC Mortgage Company, to</p>  <p>September 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to RBC Financial Group in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has been acquired by</p>  <p>August 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Jenark Business Systems, Inc. in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has completed a Public Offering of <b>1,150,000 shares of Common Stock</b> \$11.00 Per Share August 2005</p> <p>Milestone Advisors, LLC served as Placement Agent in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has completed a Private Placement of <b>1,791,332 shares of Common Stock</b> \$11.50 per share June 2005</p> <p>Milestone Advisors, LLC served as Placement Agent in connection with this transaction.</p> <p> MILESTONE</p>
 <p><b>\$5,000,000</b> Trust Preferred – Private Placement June 2005</p> <p>Milestone Advisors, LLC served as Placement Agent in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has been acquired by</p>  <p>June 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Business Alliance Capital Corp. in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has sold selected mortgage operations to</p>  <p>American Home Mortgage April 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Irwin Financial Corporation in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has sold selected mortgage operations to</p>  <p>April 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Irwin Financial Corporation in connection with this transaction.</p> <p> MILESTONE</p>
 <p><b>PNC BUSINESS CREDIT</b> <b>\$24,400,000</b> Senior Credit Facility March 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to The Rowman &amp; Littlefield Publishing Group in connection with this transaction.</p> <p> MILESTONE</p>	<p>Ponce General Corporation and its subsidiaries</p>  <p>and Ponce Realty Corporation have been acquired by</p>  <p>March 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Ponce General Corporation in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has been acquired by GP Strategic Ventures, Inc. February 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to Legend Clearing Corporation in connection with this transaction.</p> <p> MILESTONE</p>	 <p>has acquired</p> <p><b>NSD Bancorp, Inc.</b> February 2005</p> <p>Milestone Advisors, LLC served as Financial Advisor to EN.B. Corporation in connection with this transaction.</p> <p> MILESTONE</p>



## Milestone Advisors, LLC

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Milestone Advisors, LLC (“Milestone”) is the financial advisory division of Milestone Merchant Partners, LLC. Milestone is a NASD licensed broker/dealer and is headquartered in Washington, DC, with an additional office in Miami, FL\*.

**Financial Services Specialists:** Providing M&A advisory and corporate finance services to financial services companies including banks, thrifts, specialty finance, and insurance companies.

**Specialty Finance Focus:** Milestone has allocated significant resources to the specialty finance industry. As a result, we have been the advisor on more specialty finance company transactions than any other investment bank over the past three years.<sup>1</sup>

**Successful Track Record:** Milestone’s principals have completed more than 220 transactions representing in excess of \$13 billion in deal value, all within the financial services sector.

**Product Knowledge:** As illustrated by our vast transaction experience, Milestone’s employees possess the corporate finance and financial advisory product expertise that allows us to achieve strategic goals on behalf of our clients, regardless of the type of transaction.

**Senior Management Attention:** Milestone continues to attract experienced staff of all levels allowing the principals and senior management to dedicate their time and allocate the necessary resources to each one of our client’s transactions.

<sup>1</sup> based on number of transactions (source: SNL Financial LC)

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## Trivia Corner

\*Office of affiliate, Milestone Merchant Partners, LLC

- In November 1910, 5 leaders in banking & finance met with Senator Nelson Aldrich on Jekyll Island to discuss ways to avoid major financial “Panics”. The plan developed in this meeting became known as the Aldrich Act, and eventually led to the establishment of the Federal Reserve System.
- The Bank of America on Main Street in Disney Land was a functioning bank (for Cast Members) until the late '70's. It was also the only bank in America at the time that was open on Sunday. The Bank used a Sleeping Beauty Castle cancellation stamp for checks.
- The first recognizable banks developed in medieval Italy - the term “bank” deriving from the merchant’s market place bench which in Italian was called a “banco”.
- Counterfeit Currency – By the end of the Civil War, between one-third and one-half of all U.S. paper currency in circulation was counterfeit. On July 5, 1865, the Secret Service was created under the U.S. Treasury Department and in less than a decade, counterfeiting was sharply reduced. 139 domestic counterfeit operations and

- eighteen foreign counterfeit operations were suppressed in 1990.
- Tiger Woods always wears the color red on the final day of the tournament, because his mother feels that it's a lucky and "power color" for him.

E-mail your Trivia to [info@milestonecap.com](mailto:info@milestonecap.com) and we'll publish them in our next newsletter.

