To: Our Clients and Colleagues

From: Fred Koons, Chairman
SkillBridge Consulting, LLC

Date: October 23, 2009

Re: ***"The Recent Financial Turbulence Presents a Unique Opportunity for Community Banks"***

Over the past two years the mortgage finance arena has been turned upside down. A paradigm shift is taking place and Community Banks are uniquely qualified to fill a huge void in the mortgage origination space.

The events that began in the housing sector and moved into financial services over the past year are beginning to abate. No doubt much clean up remains, however; as we review the past and begin to look toward the future the opportunity to prosper in the residential market has never been better.

The Mortgage market space historically had been highly fragmented with distribution to the end consumer delivered by Banks, Thrifts, Mortgage Bankers, Mortgage Brokers and Credit Unions. Many of these traditional competitors are severely weakened or in the case of mortgage brokers, virtually gone. The Mortgage Servicing business is capital intensive and requires very large scale for success. Predictably this part of Mortgage Banking has consolidated, however; the Mortgage Origination side of the business remains fragmented in terms of the number of competitors with the primary change being the demise of the Mortgage Broker, as a result of poor credit and business practices. Consolidation that has evolved was driven by new technology for the loan origination process, expanded credit underwriting and new programs for delivery to the Agencies and Wall Street. These changes enabled more Mortgage money to flow thru a relatively small number of correspondent and broker aggregation channels. This led to market share growth and consolidation within the Mortgage Servicing business as most Correspondent channel players were the large Servicers using the channel to build the scale they require for success. However; on the Origination side the consumer was still largely controlled by a wide array of loan origination providers with the largest share going to Mortgage Brokers. Of course, these originators were selling loans to the correspondents on a servicing released basis, thus capturing most of the value of the future servicing rights immediately as profit in their gain on sale margins.

On the Origination side of the business, many of the large banks found their own large geographically distributed retail delivery networks were difficult to manage and often failed to produce loans at a cost that could meet their required ROI. An additional problem for the large players was the pricing dilemma as their retail sales staff was competing against many origination competitors, many with lower costs using mortgage money supplied and priced by the same source. Finally, many observers believe that these widely dispersed origination networks did not deliver the local service quality expected by consumers particularly when high impact functions such as processing, underwriting and funding were centralized to gain better expense control during the typically volatile mortgage market cycles. Unfortunately, removing these critical functions further eroded the service quality provided to the consumer and dampened any cross sell initiative of the financial institution.

So where do we stand today and what will evolve? The underwriting guidelines and attention to detail are at an all time high. The loans being originated today are not only being highly scrutinized but are at rates that undoubtedly will be the low point for some time to come, reducing early future refinancing and providing attractive durable value to the Mortgage Servicers.

The disruption to the Origination delivery system leaves a void that will eventually be filled by providers that are close to the customer, know their market area, utilize good quality standards and are willing to take the initiative now to set up a solid plan for the recovery.

Market Characteristics:

- Dislocation of Mortgage Broker
- Predominately conforming Conventional Fixed Rate and Governments Products
- Conservative Underwriting Guidelines
- Market Driven Property Values
- Warehouse Line Constraints
- Higher Margins

Dislocation of Mortgage Broker - In recent years TPO (Third Party Originated) business has come under severe scrutiny. Several major Wholesalers have exited the business primarily due to poor loan quality. State and Federal regulations have been strengthened. It has recently been reported that the Mortgage Broker channel now originates approximately 17% of the mortgage market, down from 60% at the peak of the market. Effective January 1, 2010 there are additional restrictions on the payment of yield spread premiums which should drive the Mortgage Broker market share lower.

Conventional Fixed Rate and Government Products - In the current environment mortgage product is very simple. Agency and Government fixed rate products dominate the market. All loans require a down payment and are fully amortized over the life of the loan. Changes are currently being considered to make the FHA program more conservative. Jumbo non conforming money is in short supply.

Conservative Underwriting Guidelines - Sweeping changes have been made to eliminate most stated income products, curtail second mortgages, raise FICO scores, reduce LTV's, severely limit or eliminate investor products and increase private mortgage insurance coverage. HVCC regulations have removed any influence from interested parties on the Appraiser.

Market Driven Property Values – Property Values have been reduced by 25% to 40% in given markets due to the liquidity crisis and the lack of exotic mortgage products. Supply continues to outweigh demand therefore no significant increase of property values is expected in the foreseeable future.

Warehouse Line Constraints- The availability of Warehouse Lines to fund the operations of Regional Mortgage Bankers has been greatly reduced. This lack of funding severely impacts their ability to grow their business. In some instances these players have ceased operations.

Higher Margins- The current market environment is subject to historically low price pressure due to fewer competitors and more balanced supply and demand factors. This environment is yielding historically high gains on the sale of mortgages in the Secondary Market. At the same time the yield curve is driving attractive funding spreads earned during the holding period between loan closing and the sale to the investor.

"Why Mortgage Banking"?

Community Banks have a number of key competitive advantages. The Banks are chartered to serve their local and regional markets and relative to the competition they are treated favorably in terms of licensing requirements. Their working capital far exceeds that of their Mortgage Broker and independent Mortgage Banker competitors. The Community Banks are highly appealing and pursued by Correspondent Investors due to their higher capital standards and ability to fund their own loans.

The talent pool required to seed or expand a mortgage business is abundant. Technology is inexpensive, very effective and helps to mitigate the lack of scale for an emerging mortgage business. Community Banks can pursue a variety of Origination and Sale strategies from simple best efforts delivery, to Secondary Market cooperatives, to more complex, more profitable mandatory delivery using a best execution hedging model.

The ramp up or roll out of a Community Bank Mortgage business is complex but manageable. Agency and Investor approvals are attainable for a well capitalized, profitable bank with a seasoned mortgage staff. The Vendor selection process relative to a Loan Origination System, Product Eligibility, Pricing, Document Preparation, Quality Control, Master Mortgage Insurance Policy and other Risk Management initiatives requires a thorough examination in context with the strategy of the bank. The risk reward balance for the Mortgage Origination business has probably never been better.

Currently, Community Banks seem to have relatively few attractive lending alternatives to restore and sustain profitability. Mortgage banking provides the opportunity to build and grow a profitable and sustainable business. It is a fee based business with attractive returns. In addition to the Origination business some Community Banks will become warehouse lenders for other banks in their regional marketplace.

Community Banks who carefully layout a mortgage strategy, create a well defined commitment to building an efficient and effective business structure and risk management process to execute the plan will sustain themselves, provide a service to their customers and a high value earning stream for their shareholders.

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SkillBridge is a Venture Capital and Consulting Company specializing in Mortgage Banking. We are currently working with several Community Banks to build or expand their Mortgage Business. If you have an interest in possibly working with SkillBridge please contact Fred Koons at 813-258-8581, Tom Glenn at 904-261-7178 or Gino Vezzani at 630-768-3726. Please visit our website, www.skillbridge.biz for more information on our Company and a complete set of services.