

October 16, 2008

**Federal Backstops and the Community Banks**

The federal relief effort has moved away from the purchase of troubled assets in the portfolios of particular financial institutions towards direct injection of capital into the troubled institutions themselves. Treasury's announcement that they will buy \$250 billion of equity stakes in the nations top financial institutions in order to restore their capital ratios is an admission that the earlier focus on untying the Gordian Knot of these large bank's troubled mortgage-backed security portfolios falls short of the mark and may be too difficult a task to undertake at this time. Nine large banks have been identified, including JP Morgan, Bank of America, Merrill Lynch, Citibank, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of New York and State Street. The amount of Treasury's investment has been determined, falling between \$2 billion and \$25 billion, depending on the size and state of the institution. These bold steps will remake the banking system and for those nine institutions, provide a necessary first step towards restoring their battered capital structures.

Attention must be paid, however, to the thousands of community and regional banks that also have been impacted in the rolling crisis, as maintaining their health and viability is critically important to the functioning credit markets at the local level. Treasury must now think creatively about effectively broadening their bold first steps to include the thousands of smaller financial institutions that provide the working capital for day to day business in America. Clearly, no mechanism exists or can be created which could facilitate individual deals with each of these institutions, and the notion of the government assuming a role as the primary investor and shareholder at this micro level is not feasible. We have been looking closely at this space in recent months, and have clear thoughts on a plan of action that combines the transparency of our auction-based capital raising platform with the strength of the federal banking system as an important step towards shoring up trust in this essential sector of our economy.

Months ago, we began an initiative focused on the community banking space, based upon the premise that the destruction of equity value in the financial sector had indiscriminately swept up many sound institutions that did not share the exposure to toxic mortgaged backed portfolios combined with unhealthy levels of leverage that resulted in the implosion of larger companies on Wall Street. We identified a universe of community banks that would benefit clearly and immediately through an equity offering in order to repair their capital ratios. Certainly, a large number of banks are suffering from deterioration of their balance sheets, and their issues run the gamut from exposure to the preferred securities of the failed GSE's to commercial and residential loans that have gone into default. Many of these institutions are under pressure from their regulators to raise capital, but what separates them from the Wall Street banks is that their straightforward business models remain intact. Fundamentally, these are viable businesses which need to raise capital in order to return to normal operations, whereas enormous questions surround the ultimate disposition of the business models of the larger banks and investment banks that have drawn the system into the recent vortex. We have reached out to hundreds of these community banks and gotten positive responses from a number of them, and are in the process of qualifying the most promising candidates.

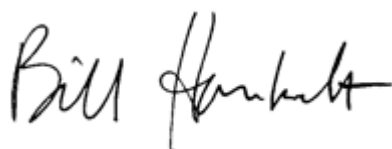
Our thesis is very straightforward, namely that if we can qualify the creditworthiness of these institutions, we can use our open auction platform to raise capital for them by accessing their natural constituencies of investors so that they can shore up their capital ratios and improve their balance sheets. We have partnered with several leading industry experts and organizations who will provide due diligence on the targeted banks. Further, we have identified a broad universe of likely investors who have invested in the community and regional bank industry in the recent past. These investors

can be brought into the OpenIPO auction process efficiently and economically, a challenge that has not been easily accomplished by the traditional investment banks. We feel that the decision to raise capital by these banks at this particular time sends a strong signal to the marketplace that the banking sector has strong and functioning members, a critical step towards recreating confidence in our capital markets. Lost in the chaos of the market activity on Friday, October 3rd, was the fact that Home Bancorp, Inc of Lafayette Louisiana successfully raised \$90 million through an initial public offering of stock on the Nasdaq Market. This is clear evidence that the appetite for equity in healthy regional institutions exists, and that banks that need to raise capital in order to restore healthy leverage ratios can do so in this environment.

Treasury's decision to consider taking ownership stakes in the nation's largest banks in order to restore confidence in the financial system and unlock frozen credit markets is a necessary one, but one that will lead to inevitable questions about the scope, inclusion and exclusion of all types and sizes of financial firms. We believe that Treasury has a unique opportunity to play a significant role in the encouragement of the capital raising process at the community and regional banking level by acting as a "backstop bid" in the auction of equity securities on the bank's behalf. The addition of a backstop bid to the auction process sets a visible floor to the price discovery mechanism and encourages interested investors to bid in an authentic and sincere fashion, with the confidence that the federal government has qualified the investment and is willing to stand up with a presumptive valuation. Prospective investors will be bidding for equity in banking institutions that carry the imprimatur of the federal government's sanction, and the government will be guaranteed an open and competitive environment in which their dollars will compete evenly with the natural constituency of investors in these types of deals. Banks that need to raise a clearly defined amount of capital will be guaranteed that they will be able to do so, but the entire amount of that capital may not necessarily come directly from the Treasury, as the auction process will bring in disparate demand to participate side by side. We propose that Treasury commits \$25 billion to this effort, and that those dollars will be used in order to provide the backstop bid for auctions of equity securities that will be conducted transparently and openly in the broad investment community. Our guess is that this will ultimately be a low cost way for the government to support the community banks, providing cash in return for equity in viable institutions, but perhaps more importantly, providing confidence in the banking system itself.

Our OpenIPO auction system is uniquely positioned to bring bona fide demand from all corners of the investment community into the capital raising process. It is also designed specifically to facilitate the transparent bidding and backstop process described above. Three of our most recent deals have validated our ability to add tremendous value and execute in the financial services space, including IPOs of Bank of the Internet, a \$35 million dollar offering, Morningstar, a \$165 million dollar offering, and most recently Interactive Brokers Group, a \$1.2 billion offering. These, combined with our recent and ongoing approach to the community and regional banking industry, prove that we have the competence and track record to perform. In addition, we are uniquely free of real or perceived conflict as an investment bank that has built its business on the principles of openness, transparency and fairness, important principles at this critical juncture.

Sincerely,



William R. Hambrecht  
Chairman and CEO