
MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the CapitalSource Inc., Fourth Quarter and Full Year 2010 Earnings Conference Call and Webcast. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Dennis Oakes. Please go ahead, sir.

Dennis Oakes, Senior Vice President – Investor Relations

Good morning and thank you, for joining the CapitalSource earnings call for the fourth quarter and the full year of 2010. Joining me this morning are John Delaney, Executive Chairman; Co-Chief Executive Officers, Jim Pieczynski and Steve Museles; CapitalSource Bank CEO, Tad Lowrey and, Chief Financial Officer, Don Cole.

This call is being webcast live on our website, and a recording will be available later this morning. Our earnings press release and website provide details on accessing that archived call. We have posted a presentation on our website this morning that provides additional detail on certain topics which will be referred to during our prepared remarks.

Investors are urged to carefully read the forward-looking statements language in our earnings release. But essentially, it says statements made on this call, which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements, including statements regarding future financial operating results, involve risks, uncertainties and contingencies, many of which are beyond the control of CapitalSource and which may cause actual results to differ materially from anticipated results.

CapitalSource is under no obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, and we expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our reports with the SEC.

John will begin the prepared portion of the call, after which we will take your questions. John?

John K. Delaney, Founder, Executive Chairman and Chairman of the Board

Thank you, Dennis. 2010 was pivotal year in the Company's transformation to a business model which pairs an independent regional bank and a national lending platform. First evidence of this progress is the fact that 65% of total Company assets were in CapitalSource Bank at December 31, 2010, compared to 46% one year earlier.

The Bank loan portfolio grew 25% during the year, while most of its peers struggled to add assets. We also acquired three new lending platforms, improved net interest margin, and significantly lowered cost of funds at the Bank. We achieved every important aspect of our 2010 plan, including the elimination of over \$2.5 billion, or 55%, of Parent Company debt, reducing it from \$4.5 billion at 12/31/2009 to \$2 billion at the end of this past year. And we finished the year with \$467 million of unrestricted cash at the Parent.

Amending the senior secured notes in December provided meaningful financial flexibility, expanding our capacity to effectively utilize this cash including for the redemption of the convertible debentures in July of 2011, which currently have an outstanding balance of \$281 million.

Our credit improved throughout the year. The quarterly loan loss provisions averaged less than \$30 million for the final three quarters of 2010. In addition, our non-accrual loans declined from \$1.1 billion at the end of 2009 to \$700 million at the end of 2010, a 35% drop.

I also want to point out that January marked the one-year anniversary of our new management structure, which includes Steve and Jim, as co-CEOs, Tad as CEO of CapitalSource Bank, and my role as Executive Chairman. This arrangement has worked extremely well.

Jim is based on the West Coast, where he focuses on loan origination and coordination with the Bank's executive management team. Steve, who is based here in Chevy Chase, has focused his attention on our regulatory relationships and shrinking the Parent Company's portfolio.

They also are working together to reduce operating expenses and obviously work closely with Tad, who has skillfully guided the Bank through a highly successful year from a financial and regulatory perspective.

Their collective focus on day to day operations allowed me to concentrate my efforts this past year on certain important strategic and financial initiatives, which is where my experience and personal contacts had the greatest impact and which we successfully completed.

I want to touch briefly on the Company's primary goals and objectives for the year ahead before turning the call over to Jim. Our first priority is to convert CapitalSource Bank to a commercial charter, and Steve will provide an update on our progress as it relates to that.

Continuing to turn excess equity at the Parent into cash through normal loan payoffs and asset sales is the second priority. Doing so will permit us to reinvest excess cash in the Bank or return it to shareholders.

The third objective is sustained net loan growth at CapitalSource Bank, of course. Achieving these priorities will substantially complete the transformation I spoke about earlier.

Finally, our overriding goal is to grow our consolidated profitability, which is dependent upon loan growth, stable credit, and reducing operating expenses. CapitalSource is well-positioned to achieve these goals. It has a deep bench of talent, a super strong balance sheet, and a valuable deposit and asset platform. The wind is now in the Company's sails in a fashion we have not had the luxury of enjoying for several years, and I am extremely proud of the work we have done through this important transition, and want to personally thank everyone for their hard work and support across these last several years.

Jim is up next and will focus his remarks on what an outstanding performance our loan origination teams had this year. Jim?

James J. Pieczynski, Co-Chief Executive Officer and Board Member

Thank you, John, and good morning everyone. Our loan originations accelerated as 2010 closed. We funded a total of \$536 million in new loans in the fourth quarter which was a 32% increase over the prior quarter. New funded loans for the year topped \$1.6 billion and we are expecting 10% to 15% growth in new originations during 2011, which we expect will take our yearly total to the \$1.8 billion level.

Quarterly production is likely to be uneven, but we expect it to be in the range of \$400 million to \$500 million per quarter. Based on the loans that have already closed in January and February, combined with others that are in our pipeline, we are confident that the first quarter will meet our expectations.

New loans in the fourth quarter were spread among most of our loan products, with the largest concentration being in equipment finance, from our corporate asset finance group. Technology cash flow, healthcare cash flow, multifamily and general commercial real estate were also substantial contributors.

Throughout the year, it's important to point out that a different one of our 12 business groups had the highest loan production each quarter, which demonstrates the strength of our diverse national origination platform. Our healthcare asset-based lending business led the first quarter, while our commercial real estate and healthcare real estate groups led the second and third quarters, respectively. As I just mentioned, our corporate asset finance team led the charge in the fourth quarter.

Our productivity level in 2010 was a clear demonstration of the strong national lending franchise which CapitalSource has built over the last decade. Total production was significantly strengthened, moreover, by the addition of three new business segments during the year. The Corporate Asset Finance, Small Business, and Professional Practice Lending groups together accounted for nearly 21% of our new funded loans. Our multifamily business, which completed its first full year of operation, contribute – contributed an additional 14%.

Our perennial strength in healthcare lending, including asset-based, cash flow, and healthcare real estate, were also evident, contributing another 28% of the total. The result of this is that the Bank experienced net loan growth of \$143 million in the fourth quarter, despite having \$232 million of loan payoffs, and an additional \$89 million of principal payments. That growth was evenly balanced with 32% being asset-based loans, 37% being cash flow, and 31% being real estate, which includes multifamily, small business, and healthcare real estate.

We expect average contractual yields to tighten a bit during the course of 2011, due to a combination of increasing middle market competition, and the ongoing shift of our total portfolio to a higher overall percentage of relatively lower yielding small business, multifamily, and equipment finance loans. Though in many cases those areas tend to produce lower all-in contractual yields, the capital requirements are lower for the multifamily loans and the guaranteed portion of the SBA loans. Because we have a depository platform with a relatively low cost of funds, we will still be able to maintain a very attractive net interest margin despite any decline in overall yields.

Our entire originations, underwriting, and closing teams did a spectacular job in 2010, and we anticipate an excellent 2011 as well. As we look forward to the year ahead, one of our key strategic goals for the Company is to achieve meaningful net growth – net loan growth at CapitalSource Bank, while redeploying and reducing excess liquidity, while still maintaining our absolute underwriting discipline. We have the personnel in place to continue to grow our annual production with an originations engine as strong as we've ever had. As the economy continues to improve, we expect our quarterly asset generation will continue to grow as well.

Steve will now provide details on some of the other key performance metrics for the Bank last quarter, and give an update on Parent loan sales, and our efforts to obtain a commercial banking charter. Steve?

Steven A. Museles, Co-Chief Executive Officer and Board Member

Thanks, Jim, and good morning everyone. In addition to loan originations, the fourth quarter demonstrated an all-around strong performance for CapitalSource Bank. Net interest margin increased by 7 basis points to move above 5% as our cost of deposits declined further and non-accruals decreased by \$102 million, almost 30% below the prior quarter. New non-accruals totaled only \$12 million. In fact, all of the credit metrics at the Bank improved again last quarter. The loan

loss provision declined from \$15 million to \$10 million, charge-offs were significantly lower at \$16 million, compared to \$48 million in the third quarter, and both short-term and 90-plus day delinquencies declined meaningfully.

The credit performance of loans made since the July 2008 inception of CapitalSource Bank highlights the fact that the bulk of credit issues at the Bank are related to the Bank's legacy loans, rather than those loans originated following formation. For example, at year end 2010, total loans at the Bank were \$3.8 billion, with \$2.4 billion, or 62% of those loans, originated following the Bank's formation. Looking only at that group of post-formation loans at December 31, 2010, we can see that \$49.6 million, or 2.1%, were on non-accrual, and only \$32.2 million, or 1.4%, were greater than 30 days past due.

Moving onto OpEx, operating expenses at the Bank were up about \$3 million in the quarter, although approximately \$2 million of the increase was attributable to incremental loan referral fees paid to the Parent due to the higher than anticipated level of loan production. On a consolidated basis, for the full year, we made substantial progress in our efforts to reduce total operating expenses. We saw decline of nearly \$50 million, or approximately 17.5%, in OpEx from 2009. Much of the saving comes from a significant reduction in outside professional fees and other expenses related to loan workouts.

We also were able to create efficiencies internally, by streamlining business functions, paying off debt, and selling loans throughout the course of 2010. As a result, we reduced employee head count by just over 5% last year, despite adding nearly 55 people connected with our three new lending groups that Jim just mentioned. At year-end we had 622 total employees. For the full year 2010, net interest income at CapitalSource Bank increased by 35% as we brought down the Bank's cost of funds by over 100 basis points to 1.34% and more than doubled new loan production.

With this performance as a foundation, and the projected loan originations which Jim just discussed, CapitalSource Bank is extremely well positioned for another strong year of profitable growth in 2011.

Based on the forward LIBOR curve, we expect our cost of funds at the Bank to rise modestly during the year, but remain below 1.3% on a full year basis. We expect the net growth in the loan portfolio, however, should permit us to maintain a 5% net interest margin for the full year. We expect the full year ROA at the bank to be in the 1.25% to 1.5% range.

Turning next to our efforts to obtain a commercial banking charter for CapitalSource Bank; although the existing charter does not present any barriers in terms of a projected growth and profitability in 2011, there are a number of longer-term benefits to a commercial charter that we would like to pursue.

We previously indicated that our plan was to file a bank holding company application with the Federal Reserve in the first quarter of this year in order to get the formal review process underway. Based on conversations with the Fed, however, we now understand that the process will involve more interaction with Fed staff before the application itself is filed.

This should allow us to better tailor the application to meet regulatory requirements. We have been and continue to be engaged in active and ongoing, onsite meetings and other productive discussions with the Federal Reserve staff, which will further clarify the actions we must take before our application is filed.

We look forward to their continued guidance as the Federal Reserve evaluates our readiness for bank holding company status. The process is moving forward and we still expect it will be concluded during the second half of this year.

Before closing, I want to comment briefly on our efforts to sell loans from the Parent portfolio as we continue to reduce Parent Company assets, pay off debt, and further strengthen our balance sheet.

In addition to REO sales and some small individual loan sales during the quarter, we recently reached agreement for the sale of approximately \$140 million of loans in our \$275 million European portfolio at year-end. A significant portion of the remaining loans in that portfolio are expected to payoff in the ordinary course during the first half of this year.

Since the beginning of this year, we have also paid off all of the remaining bank debt on over \$1.5 billion of loans held at the Parent outside of our securitizations. As market prices continue to improve for many of the assets in this portfolio, we will strongly consider the sale of additional loans. As loans pay down, pay off, or sell, we expect our unrestricted cash will increase.

Although we are disposing of assets at the Parent, excess cash and a strong capital position at the Bank position us to be a buyer of loans and portfolios in our areas of expertise. While we have routinely purchased loans in the past, there are now increasing opportunities to do so in many of our markets. To capitalize on these opportunities, we have recently moved one of most senior executives in our Manhattan office into the full time role of identifying loan portfolios available for purchase by CapitalSource Bank.

Don is up next, and he will provide additional financial highlights from our fourth quarter performance, particularly on a consolidated basis. Don?

Donald F. Cole, Chief Financial Officer

Thank you, Steve, and good morning everyone. The fourth quarter and the full year 2010 presented a story of declining debt, improving credit, and increasing liquidity. The Bank had a terrific year, as Steve just indicated, but on a consolidated basis, there were many positive signs as well.

Pre-tax, pre-provision, pre-other income for the fourth quarter improved to \$45 million from \$40.5 million in the prior quarter. This was driven by higher loan yields, a reduction in interest expense, and relatively stable operating expenses. The quarterly loan loss provision also declined from \$39 million in the third quarter to \$24 million, the lowest level since the first quarter of 2008. This resulted in an improvement in our net interest income, less provision and operating expenses, from under \$2 million in third-quarter to nearly \$21 million this quarter.

Our overall profitability in the fourth quarter was hurt, however, by REO losses and expenses of \$20 million and mark-to-market losses of \$20 million on loans we sold, or intend to sell, as we continue to trim the Parent Company portfolio and dispose of assets. \$11.5 million of the loss related to loan sales was attributable to the pending sale of \$140 million of European loan assets that Steve described.

Our ultimate loss on the sale of these loans will be closer to \$8 million, as some of the loans will be sold at a gain that will be recognized during the first quarter when the transaction is complete. This net loss is very much in line with the level of reserves maintained against that portfolio as of September 30th.

Both the REO losses and losses on the sale of loans are reported in the other income portion of our income statement. That section is comprised largely of non-recurring items and was the biggest driver of the change in earnings per share from the third quarter, as it moved from \$41 million of income to \$17 million of net expense. As you may recall, in the third quarter, other income included a one-time gain of \$17 million resulting from the deconsolidation of the 2006-A securitization and \$30 million from gains on equity investments. REO expense was also \$13 million lower in the prior quarter.

Turning to the balance sheet. As John indicated, during 2010 we reduced Parent Company debt substantially, including the healthcare net lease debt that was outstanding as of December 31, 2009. Parent Company debt was reduced from \$5 billion at the beginning of 2010 to just over \$2 billion at the end of the year.

Subsequent to year-end, we have paid off and terminated all of the remaining short-term credit facilities with the exception of our syndicated bank facility. That facility continues to have a zero balance and we expect to terminate it at some point during the next several weeks.

The term securitizations continue to pay down as well, with approximately \$167 million of collections in the fourth quarter, reducing total third-party debt on those deals to \$694 million. Our net equity in the four remaining securitizations was approximately \$246 million at quarter end.

As John mentioned, liquidity continued to strengthen at the Parent as our unrestricted cash position increased to \$467 million at year-end. The repayment of all of our secured credit facilities will only further enhance the cash position at the Parent, as less of the principal and interest collections on loans will be required to be applied to debt amortization.

The amendment to the senior secured notes, which was approved by note holders in December, substantially increased our financial flexibility. The biggest immediate benefit is our expanded capacity to use available cash to redeem the 2011 and 2012 convertible debentures. The amendment also significantly increased our capacity to repurchase stock and/or pay increased dividends.

I mentioned the reduction in the quarter of our loan loss provision. As John touched on, our other credit metrics on a consolidated basis improved as well. Non-accruals decreased by \$89 million from the third quarter level of \$788 million, and the rate of new non-accruals also decreased. Both short-term and 90-plus day delinquencies declined as did impaired loans.

Our capital levels at the Parent and the Bank remain high. At December 31st, cash and investments at the bank were \$2.1 billion, and total risk-based capital was over 18%. Due to the anticipated profitability at the Bank, we expect our risk-based capital levels will remain well in excess of our current regulatory minimum throughout 2011, despite our expectation for significant loan growth.

Before closing, I want to touch on taxes for the fourth quarter and for the year ahead, as well as our DTA valuation allowance. In the fourth quarter, we recorded a small net tax benefit on a consolidated basis. The Bank recorded tax expense based on its standalone profitability in the fourth quarter; that Bank tax expense was offset by anticipated tax benefits recorded at the Parent.

Looking forward to 2011, as we have indicated, we will become eligible to file a consolidated U.S. federal tax return. This means that we will be able to utilize losses from some entities to offset income at other profitable entities, principally the Bank.

Ultimately, until such time as our DTA valuation allowance is reversed, our GAAP tax expense will look much like the fourth quarter, with Bank tax expense based upon profitability offset by Parent benefit.

The key difference in 2011, however, will be that instead of paying its tax liability to the IRS, as it will for 2010, the Bank will pay its tax liability to the Parent under our existing tax sharing agreement.

As we expect to continue to be profitable on a consolidated basis, the utilization of Parent losses by the Bank for GAAP purposes will slowly reduce our valuation allowance. As we have indicated

previously, for a significant reduction of the valuation allowance that will likely result in a large net tax benefit on our income statement, we will need to have demonstrated a sustained period of positive pre-tax income.

There's not a bright line test in the accounting literature for making this determination, but we do not expect to reach that point before the end of 2011.

The importance of demonstrating a sustained period of probability for GAAP purposes is that it allows us to consider our expected future taxable earnings as a source to utilize our DTAs. As we move closer to that time, it is important to consider how our expected taxable earnings will match up against our current DTA.

The gross DTA at December 31st was approximately \$510 million. The largest portion, representing over 40% of the balance, comes from net operating loss carry forwards. We expect to use these carry forwards against future taxable income.

A much smaller portion of the gross DTA, approximately 10%, is from capital loss carry forwards. Capital loss carry forwards can only be used to offset capital gains. Therefore, we may maintain some valuation allowance against this portion of our DTA until we can clearly forecast capital gains within the statutory time period.

The remainder of our DTA is comprised of GAAP losses that have not yet been triggered for tax purposes. The largest single component of that comes from our loan loss allowance. However, smaller amounts come from GAAP write-downs on assets that, if realized, would likely result in capital losses.

Similar to the existing capital loss carry forwards, these would need to be utilized to offset capital gains during the statutory period, so that clock has not yet started to run on these items. It is also likely that some portion these unrealized losses will not ultimately be realized, as certain GAAP marks should reverse over time.

The tax area is clearly very complex, so I'd be happy to address any remaining questions in the Q&A portion of the call.

At this point, I'll turn the call back to Jim for some concluding remarks.

James J. Pieczynski, Co-Chief Executive Officer and Board Member

Thanks, Don. In summary, we believe the fourth quarter was positive with \$536 million of loan production, significant loan growth at the Bank, and the continuing – continued de-levering of the Parent. We are moving closer to filing our bank holding company application; we are projecting our ROA at the bank to be in the 1.25% to 1.5% range for 2011. We also expect to continue to de-lever the Parent as loans pay off or are sold.

With this, we are very excited for our prospects in 2011. Operator, we are now ready for any questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from John Hecht of JMP Securities. Please go ahead.

<Q – John Hecht>: Morning guys, thanks for taking my questions. First one's a little bit related to the disposition of the European NPAs coming to Q1. Looking forward, do you have a pipeline of potential other large REO or NPA assets, which, I guess, those come out of North America now? Is there any pipeline you can – can refer to do for that to give us an idea of when the REO and NPA levels might drop further and what would that mean to REO expense in the near term quarters, particularly related to the European disposition?

<A – Steven A. Museles>: I mean, let me just clarify one thing. The European loan portfolio is a performing loan portfolio. There's no NPAs or other problem loans in that portfolio. So, it was just kind of non-core to our business going forward, which is why we determined to dispose of that portfolio.

<Q – John Hecht>: Okay, thanks.

<A – Steven A. Museles>: A far as other -

<A – Donald F. Cole>: As far as the pipeline, I think, we are actively trying to outpace our REO and our non-performing assets; that I would view as the sort of, call it, significant pipeline. We've seen, just from the numbers coming down we've had some success there. As the new situations rolling in there reduce, that number should hopefully come down even more rapidly. But I would think that that – that is where our pipeline is and that's where our focus is.

Obviously, as we've said, if we can trim some of the Parent Company assets, based on current markets and get acceptable prices, we will consider – continue to consider that. But really, the European is almost an identifiable standalone. We've pointed out to people before just because it is a, call it non-core and non-U.S., and, therefore, has some additional expenses with operating in the Europe – in Europe associated with it.

And just to remind, I think as Steve point out in his remarks, the sales, about half of that portfolio, but we suspect a very significant remainder of that portfolio will actually just pay-off based upon its own, either terms or natural prepayments within the portfolio in the next few months.

<Q – John Hecht>: Thanks. And can you give us essentially what the OpEx is for that total portfolio that might move off the balance sheet in the next few months?

<A – Donald F. Cole>: I don't have that specific number. It kind of gets embedded in a lot of areas where it's sort of tax expenses, tax compliance expenses in the U.S. So it's a little bit spread out. The actual European expenses, there's not that many people over there at this point. But – so I wouldn't call it a material number that necessarily next quarter you would see drop out of the income statement.

<Q – John Hecht>: Okay. And, second question. Can you remind us when you clipped your de novo charter and what kind of flexibility that will present to you guys? And then is there any maneuvering with the Fed you have in getting your – an updated charter that has to do with the de novo status as well?

A – Steven A. Museles>: Tad, you want to take that question?

<A – Tad Lowrey>: Yeah. Hi, John. The situation is that we believe that the entire order placed upon the Bank, by both the FDIC and the DFI expires at the end of July in this year. So, all of the

items in the order, such as prohibition of paying dividends, specific capital requirements to the Bank, and a number of other management and structural issues would go away.

We have – we are not far along enough with the Fed to have engaged in any discussions with them about any type of order restrictions that they would place on either the holding company or the Bank. So we really view those on two separate paths.

<Q – John Hecht>: Great. Thanks very much, guys.

Operator: Our next question comes from Don Fandetti from Citigroup. Please go ahead.

<Q – Donald Fandetti>: Hi, good morning. John, you had mentioned that the Company has the wind at their – at your sails, and I was just curious; obviously there was a Wall Street Journal article suggesting that maybe you are looking to sell the Company. I'm not sure if you are in a position to talk about that or refute it? And we will start there.

<A – John K. Delaney>: Yeah. I mean, you know what our answer is on any of these things, Don, which is we don't comment on rumors at any level. So, but I do think the winds are at the Company's sails, so I'll certainly take this opportunity to make that point again.

<Q – Donald Fandetti>: Okay.

<A – John K. Delaney>: We think things are going great for the business and it's got a very bright future. So -

<Q – Donald Fandetti>: So, I know there's – also has been some talk that you are involved in potentially another private company. I didn't know if you were going to ultimately take some kind of deeper role there, or is that sort of a – one of many type investment situation?

<A – John K. Delaney>: Right. And again, kind of consistent with the theme of my prior remark which is, this is a CapitalSource call, so I won't discuss other personal or professional things that I am engaged in on the call. But I'd be happy to chat with you offline about it.

<Q – Donald Fandetti>: Okay. And then on the business, if I recall, you have a pretty decent size Genesis Healthcare loan that's -

<A – John K. Delaney>: Yes.

<Q – Donald Fandetti>: – unencumbered. And I was just curious; there was some talk about that getting refinanced. Do you think that's still a possibility?

<A – John K. Delaney>: I will refer to Jim. There was a specific article, which you are probably referring to, where in the Commercial Mortgage Alert I think it was; but, Jim, why don't you provide some more details.

<A – James J. Pieczynski>: Right, I think we've read the article and we've certainly been talking to our borrower. Obviously the loan still has a – we have, what we have in terms of in our unencumbered assets is the large mezzanine loan that we have. And we know that the asset values in the skilled nursing space has certainly increased over the years, and we believe there is significant equity over and above our mezz debt.

Also, with the change in the market, we think that the possibility of them either doing a refinancing or an outright sale of those assets is very, very – is a very reasonable, likely outcome. As for the timing of that, I don't know when that would happen; but, the summary is, we feel very good where we're at in the asset.

<Q – Donald Fandetti>: Okay. And if I could just – one last for Steve. Steve, I mean, on the – you think you can get bank holding company status by year end, I believe is the statement. What's your confidence level there? I mean, obviously some things have slipped a little bit in terms of how the process works. Any reason why you feel so confident on that specific date, or should we leave some room for slippage?

<A – Steven A. Museles>: Yeah, I think that – first of all, I feel very confident that we can get the bank holding company status. I think nothing's changed in terms of our ultimate timing to becoming a bank holding company. We always said it would be towards the second half of the year. What's changed is, you know, filing the application after we have more conversations and visits with the Federal Reserve staff in order that, once we file it, it won't be on file for as long as it would have been had we filed it, and then started engaging in conversations with them.

So that's really the rationale for kind of the change in order. They were always planning on coming in and talking to us several times and obviously doing an examination at some point. So, this is just, again, switching the order around but not changing the ultimate timing. So we feel very good about our chances, based on conversations with them and based on what we understand we need to do to become a bank holding company.

<Q – Donald Fandetti>: Okay. Thank you.

<A – Steven A. Museles>: Sure.

Operator: Our next question comes from Steven Alexopoulos from JPMorgan. Please go ahead.

<Q – Steven Alexopoulos>: Hey, good morning everyone.

<A – Steven A. Museles>: Hi, Steve.

<Q – Steven Alexopoulos>: Maybe I'll start. Can you guys talk about the expected amount of loan payoffs and pay downs that you think is reasonable in 2011?

<A – Donald F. Cole>: You know, look, the – we get that question a lot, and it's obviously always difficult to forecast exactly what those are because it's based upon a bunch of things. One of which is just natural market activity which, I would say, if I just look back at 2010, was more active than what we thought. So I think our pay downs, just on normal loans, were faster.

The second is, actually our active efforts to remove loans, which this European facility sort of came about in the fourth quarter bleeding into this first quarter. So, I would hesitate to give too much on loan payoffs. We just talked about a little about this Genesis asset and it's somewhat unknown as to when that will pay off, it's still a little bit chucky. So, I don't think I'll give a specific number. I would say the 2010 pace, while above what we expected, is probably representative of where we think things will continue in 2011.

<A – James J. Pieczynski>: And I think the answer is we certainly expect to have continued significant loan growth at the Bank. Now that the iStar loan participation is paid off, with the originations we're going to do, we will have significant loan growth. But as Don pointed out, there are a lot of loans that can pay off that we really don't have any control over. So it is somewhat difficult to forecast what happens there.

<A – John K. Delaney>: Right. And at – at the risk of just repeating what everyone said here, I think our general view is the corporate credit markets are somewhere between normal and hot. And, historically, when you look at the Company's portfolio in these kind of periods, you saw pretty active prepayments. So -

<Q – Steven Alexopoulos>: Okay.

<A – John K. Delaney>: – that would be a reasonable assumption for 2011.

<Q – Steven Alexopoulos>: Okay. I had a couple of questions on OREO. First, what was the amount of OREO that was sold in the quarter, and could you give the OREO balance at year-end?

<A – Donald F. Cole>: Let me – give me one second and I'll get you that information.

<A – John K. Delaney>: Do you have another question, Steve, while Don's looking it up?

<Q – Steven Alexopoulos>: Yeah, while you're looking – while you're looking that up, could you – how are you thinking about OREO expense, right? It was around \$110 million for the full year. Is that how we should think about this again in 2011?

<A – John K. Delaney>: So I'll answer that question first, I would say the answer is no. Included in that line are both the expenses of operating REO, which we try not to have it on the books for too long, and also marks or further markdowns after something has been foreclosed upon. And I think, throughout the year, as values continue to decline, certainly in the first half and I think some of that was really concentrated I would say in the first or second quarters, we had some incremental marks there.

So, I would say, our expectation is that will stabilize some and certainly not run at that same level. And so, let me just give you the sense of the book value of our REO at the end of the fourth quarter was just over \$90 million. And, the sales proceeds from – in that quarter were about \$25 million. So we had some new stuff roll in; we sold \$25 million and we ended with about \$90 million.

<Q – Steven Alexopoulos>: So how should we think about the marks on what you sold? Like the further write-downs needed to sell?

<A – John K. Delaney>: On the stuff that sold – on the stuff that sold this quarter, it was very close to the actual marks. There were a few things that didn't sell that contributed to the marks I indicated during my part of the remarks. But the stuff that sold was right about the marks that they had been at at the prior quarter end.

<A – James J. Pieczynski>: And I think it was the result of those marks that caused us to take kind of a further valuation allowance relative to the rest of it based on where we thought everything was going to be coming out. So that's why you're seeing that write-down that we have in the fourth quarter is largely a function of – it is not a result of the assets that were sold. It is more a function of the assets that are remaining, and getting new appraisal information.

<Q – Steven Alexopoulos>: Okay. And maybe just one final question. I know you've commented already a couple of times on the application for the bank charter being pushed from the first quarter to the second half of the year. But can you give us a sense, where are you most focused in order to get the application filed? Is it just higher profitability level? Is it credit quality? Is it getting the Bank to a certain level of company assets? Any color there would be helpful. Thanks.

<A – Steven A. Museles>: Ask the question one more time? Sorry, I missed the beginning of it.

<Q – Steven Alexopoulos>: So, just regarding the application process for you to apply for the bank charter. I am curious where you guys are most focused now in order to get this process moving. Is it moving profitability levels higher? Is it getting credit quality to a certain level? Or is it just getting the Bank to represent a bigger portion of the overall Company? Just wondering where you are focusing? Go ahead.

<A – Steven A. Museles>: Yeah, I think we are pretty happy where we are already on all those things. I think for us, it's simply working with the Fed to understand more procedurally what they want the Parent Company to have in place to look and feel like a regulated entity. Obviously we know how to do that given the Bank and the Bank's performance.

But the Parent has not been regulated before, and so we just need to put – you know, it's a lot of policies, a lot of procedures. I think on the substantive issues that you mentioned, we've made a significant process since we first tried this a couple years ago. And I think we have proven ourselves on all those issues – profitability, asset quality, liquidity, et cetera, earnings even. So, again, it is just a matter of procedures.

<Q – Steven Alexopoulos>: Thanks.

<A – Steven A. Museles>: You are welcome.

Operator: Our next question comes from Sameer Gokhale with KBW. Please go ahead.

<Q – Sameer Gokhale>: Hi. Thank you. John, I didn't – I know you did not want go into a lot of detail or discuss your involvement, bank alliance. But I think it would be helpful to me, as well, to hear your thoughts on that at some point, given that I think investors are pretty focused on this issue and how important you've been to CapitalSource over the years.

So I think it would be helpful to me, as well, to get your thoughts on that at some point. In terms of a question, just a few here, you know, the loan portfolio, there was an increase in the yield at the Parent and I was wondering if there were more details as to specifically what that was due to, because it seemed like there was an uptick in the non-accrual rate as such. It didn't seem like credit improvement was necessarily responsible for that. So, could you give me some clarity on the yield improvement at the Parent on the loan portfolio?

<A – John K. Delaney>: Sure Sameer, and in the press release we talk about yield on loan improvement and yield on interest earning assets improving. I'll touch on the loans first. Included in interest income is both the ongoing coupons people pay, but it's also any amortization of upfront fees when things prepay. So as we mention, there was a significant amount of prepay activity on performing loans in the quarter.

So there was a fair amount of that fee amortization that contributed to that yield improvement. And then the second thing I would say, there's a little bit of a mix even in the coupon area where, you know, a lot of the loans that are prepaying are in the corporate loan market. There are a lot of loans we originated '05, '06, '07, when spreads were somewhat tighter. So, we're having a little bit improvement from mix shift. But I think it's principally the effect of the, you know, accelerated amortization of some of the fees and expenses.

<Q – Sameer Gokhale>: And again, can you give us a sense for how much they contributed to the yield this quarter versus, say, last quarter? I know you used to provide that at one point in time in the past?

<A – John K. Delaney>: Yeah, at the Parent, and I don't have that number in front of me, it probably was a uptick of about 50 basis points of yield in the quarter from, you know, running at roughly 50 in the third quarter to just over a point in the fourth quarter.

<Q – Sameer Gokhale>: Okay. And then, in terms of the new non-accruals, I know you'd given the \$99 million new non-accruals, I believe that was at the Parent. But, could you give us a sense for what that number was on a consolidated basis both this quarter and last quarter, if you have that handy?

<A – John K. Delaney>: I don't have it handy. I'm not sure I recall the \$99 million new non-accrual number. Is that in the press release, Dennis?

<Q – Sameer Gokhale>: Yeah, it was in the press release.

<A – Dennis Oakes>: Yeah, I think it's – there's – there's some – it's largely, and, sort of, I would say, the commercial loans base at the Parent.

<A – John K. Delaney>: Yeah. And I think we can dig some stuff and give you that info offline, Sameer.

<Q – Sameer Gokhale>: Okay. That would be terrific. And then just my last question for now, which is the net charge-offs at the Parent. You had these – some assets that you, on your balance sheet, the assets held for sale seem to be up pretty significantly compared to last quarter. And I was wondering if any of those items flowed through the charge-offs at the Parent, which kind of contributed to the higher dollar amount of charge-offs? If you could just clarify that and provide some more detail there?

<A – John K. Delaney>: Yeah, the answer to that is, no. I mean, the loans held for sale, most of that, or the majority of that, is the European assets and there's a couple of other performing loans. So those were largely performing loans. And so, any marks we took to sell them at discounts, principally not credit related discounts, were in that below the line area I discussed. So those wouldn't contribute to the charge-offs in any material way.

<Q – Sameer Gokhale>: So was there any sort of other acceleration of charge-offs in that line item in the quarter, because it does seem at the Parent there was pretty meaningful increase in the dollar charge-offs?

<A – John K. Delaney>: I wouldn't call it acceleration. I mean, I think in our package, you can see which categories it was, I think, a little bit more in our commercial, less real estate. I think we've said we have very high provisions reserves in that commercial book, or the cash flow book. So I wouldn't say it's anything – any unexpected acceleration.

<Q – Sameer Gokhale>: Okay. All right. Thank you.

Operator: Our next question comes from Bob Napoli from Piper Jaffray. Please go ahead.

<Q – Robert Napoli>: Thank you. Just to clarify, the guidance for 1.25% to 1.5% ROE at the Bank in 2011, what tax rate does that assume for the Bank?

<A – James J. Pieczynski>: For the Bank that assumes the full tax rate.

<Q – Robert Napoli>: Which, I mean in the fourth quarter it was like a 50% tax rate?

<A – James J. Pieczynski>: Right. When we are looking at it, we're typically going to be using a 40% all-in tax rate.

<A – Donald F. Cole>: Yeah, I mean just, not to get into too much tax, but since I love discussing the topic. As I mentioned, the Bank doesn't have, sort of, a federal deferred tax asset allowance, but has some state items. And so, the reason why the rate was a little bit higher this quarter is for state purposes; some of the things they put on increase those states' ETAs, add a little more tax expense. But that shouldn't continue in the long term. So we forecast that at that – closer to the statutory rate, as Jim indicated.

<Q – Robert Napoli>: Okay. And, on the Parent or the non-bank portion of CapitalSource. What is – you did have some losses there. You talked about the one-time items. But do expect the non-bank to – you would think that it would be profitable in going forward, given the reserve levels. But is that – do you expect to generate profits out of the non-bank as that business continues to liquidate?

<A – Donald F. Cole>: You know, I would say I wouldn't expect we would create material profits off that. I mean, if you think about that, the asset pool's shrinking fairly rapidly. For the consolidated enterprise there's still a fair amount of the expenses contained in the Parent. And we still have some of the debt that has the longest maturities as the highest cost.

So, we don't view the Parent on a standalone, if you look at our segment financials, will be a material, material earner. As I sort of mentioned in the agreement, that sort of think about on a pre-tax basis, because the Parent tax will be able to actually generate some benefits offsetting Bank expenses. But on a pre-tax basis, I don't think we view it as a material income producer. It is really largely concentrated in the Bank.

<A – John K. Delaney>: The Bank is being run for profitability. Obviously the consolidated entity's being run for profitability, but, an important subsidiary to the Parent is to run it to liquidate it. Because, then we think that cash can be reinvested either in the Bank or returned to shareholders at a higher rate of return. So, we're clearly not taking active steps to enhance the profitability of the Parent on the revenue side; we are taking active steps to enhance the profitability of the Parent on the expense side.

But on the revenue side, if we wanted to maximize revenue as a Parent, we would keep the Parent invested and that is not our goal. Our goal is to reduce the Parent. It is a little bit of a one step back to go, we think, three or four steps forward; because, give up a little profitability at the Parent, but you get a lot of cash which you can reinvest at a higher rate.

<Q – Robert Napoli>: And would you expect – I mean, do – to stock – start repurchasing stock in the near term, or are you going to continue to build cash balances, make sure you have the capital to pay debt requirements this year and next – first? I mean – are you far enough along that you would start buying back stock?

<A – John K. Delaney>: Well, clearly, debt requirements are the number one priority of the company, right, obviously. And so those will be taken care of. We do have a stock buyback program in place. But again, we don't talk about how we are going to use it, et cetera. So we probably don't want to spend a lot of time speculating about how we will use the program. But we do have one in place.

<Q – Robert Napoli>: Okay. And, if you to get the bank holding company status are there significant expense saves? Essentially you are running two entities today. And I mean, are there material expense saves, and can you quantify that to some extent?

<A – James J. Pieczynski>: This is Jim. I think from a – the way we look at it is, I don't know if I would say there are going to be material expense saves, but I think there's going to be just a general level of efficiency that we don't have the luxury of having right now. I think, you know, we end up going through you know, kind of a dual underwriting process from a credit function.

We have separate accounting departments, we have separate IT departments, we have separate HR departments. And so I think to the extent we will be able to kind of consolidate those departments and make them more efficient, more effective, that's going to make us more efficient. I don't know if I would say there is going to be significant savings associated with that though.

<A – **John K. Delaney**>: Yes. The only other thing I'd add to that is if you see our year-over-year OpEx from 2009 to 2010, there was a fairly sizable reduction of about \$50 million.

<A – **James J. Pieczynski**>: Just under \$50 million.

<A – **John K. Delaney**>: And so, I would say there's more saves we think we can make in total OpEx even in advance of a bank holding company that are unrelated to that process, including to push down our professional fees and loan workout fees, et cetera. So, we still think there is room to run even excluding the benefits of bank holding company status.

<Q – **Robert Napoli**>: Now we're about two thirds of the way through the first quarter. What's the – what are you expecting as far as the dollar amount of NPAs as we move into the first quarter and through 2011? Are you seeing signs, I mean, maybe give us a little clearer outlook?

<A – **Steven A. Museles**>: You know, I guess, I'll say what I've said before. We've seen the NPA's and the impaired and all these credit stats improve. We expect those to continue to improve throughout the year. The pace of new problems has slowed. We expect to continue to work through the existing problems and certainly on a percentage basis, as we work to grow the Bank's loan portfolio, those things should improve.

<Q – **Robert Napoli**>: Okay. Thank you very much.

Operator: Our next question comes from Mike Taiano from Sandler O'Neill. Please go ahead.

<Q – **Michael Taiano**>: Hi, good morning. Just had a couple questions. I guess, first, I want to make sure I understand the geography of where some of the marks came, I guess, on the Euro loans was – I think, you said it was a \$9 million mark. Is that flowing through the other – other income line? The \$6 million loss in the quarter?

<A – **Donald F. Cole**>: So, yes, the mark on the Euro loans in the fourth quarter actually was \$11.5 million. And I think I tried to touch once on those marks without dwelling on it in too much detail. When we sold these loans, we negotiate a price. We mark each one individually.

Some of the loans have losses, a few have gains. Unfortunately, the way GAAP makes you treat them is you take all the losses now and you take the gains later. So the mark was \$11.5 million in that other income line for Europe, and we'll get, as I mentioned, about \$3 million or a little more than that back when the whole thing closes in the first quarter.

<Q – **Michael Taiano**>: Okay, great. And then, any losses on loans that you sold during the quarter with those that flowed through the \$20 million REO expense line?

<A – **Donald F. Cole**>: If it was an REO, yes. If it was a loan, it would be – I mentioned of that \$20 million, \$11.5 million was Europe. We did sell a few other loans that contributed from going from the \$11.5 million to \$20 million on total marks on loans that were sold. As I mentioned with the Europe, we do have general reserves allocated to those pools and our marks come – came in that situation very close to that.

As with some of these other loan sales, it's the same thing. So, we feel good about the levels at which we are selling, although we do take some of these marks because we're selling – some of these things have fairly low yields in long-term. So there is a little bit of a discount at the sale point.

<Q – **Michael Taiano**>: Okay. And, I guess on that topic, I mean, you obviously are generating a lot of cash at this point. But, do you consider selling non-accrual loans if you think that the cash proceeds, if there's pretty good returns out there and new loans you just try to, even if you take a

loss, do you think about just taking it now so that you can redeploy that cash into higher yielding assets?

<A – John K. Delaney>: Yes. We, I mean, we absolutely consider selling non-accruals and non-performers. Obviously we will consider the bids. We are not going to take bids that are, sort of, fire sale prices that we think we can do better by holding a little bit of time. But our goal is to move those things out as quickly, as sensibly, or make sense for us to do.

So, and we have done that and that's part of the reason why some of the nonperforming asset numbers got better. We have worked through some of those. But we will continue to work hard to move those out, even if it means small incremental marks; but we are not going to, like I said, take fire sale prices versus what we think ultimately an assets worth.

<A – James J. Pieczynski>: I mean, there is an organized effort across both the Parent and the Bank to manage that process as well.

<Q – Michael Taiano>: Okay. And then just the last question, I just want to make sure I understand the margin guidance for the Bank. So, you are basically saying the yield is likely to come down because of mix shift, and that the deposit costs will be relatively stable. So, I guess is the reason why the 5% margin, is it expected to stay stable, is that just because the loans that are running off in the Bank are lower margin loans relative to what you're putting on?

<A – John K. Delaney>: Well, yeah. I think – I think that there is a combination of all of that. I think we look at where our net interest margin was at the Bank for the fourth quarter, which was at the 5% level, and we believe that although, we are going to – one of the benefits we have is, although we are going to have somewhat of a declining yield on the loan, the – our cost of deposits is also stabilized as well, too.

So I think when you take into account the addition of the loans, coupled with the loan growth that that results in, that's what's going to get us to the point where we will be able to maintain that net interest margin.

<A – Tad Lowrey>: There is one other factor – this is Tad. There's one factor that I'm not sure you mentioned and that is, we do expect the investment portfolio, which consists of a lot of short-term cash, to run down substantially in 2011 and that the yield on that is almost nothing and that will be replaced with loans in the 6% to 7% yield. So it is a mix improvement as well.

<Q – Michael Taiano>: Great. That is helpful. Thanks.

Operator: Our next question comes from Henry Coffey from Sterne Agee. Please go ahead.

<Q – Henry J. Coffey>: Yeah, good morning, everyone. Thanks for taking my question. Don, can you help simplify the tax situation for us? You obviously pay taxes at the Bank. You then have an offsetting credit at the finance company or the holding company level. Does that equal zero taxes for every quarter or a low sort of 20%, 25% tax rate on a combined basis for every quarter? I was wondering if you could help us with the math a little bit.

<A – Donald F. Cole>: So, Henry I'd say I would ask you if you could help me simplify it. But, I think the forecasted view is that it should stay close to the zero level. And, obviously, there's a lot of complexities embedded. But the simple way to look at it going forward to 2011 is, now that the Bank and most of the Parent entities will be treated as a consolidated Federal tax filer. Basically, as the bank generates income, it can then use Parent carryover losses, any incremental Parent losses, to offset its income.

So we will look at the – for purposes of even GAAP taxes, we'll look at it as one consolidated unit. So the expectation would be that consolidated taxes, on a tax expense basis, should run close to zero. Obviously there are state tax oddities; in some states we don't file as a consolidated filer, so there is going to be some noise in there.

But I wouldn't say I'd expect it to be up in the 20% range. I'd expect it to be down in that closer to the 0% range. But it will bob around that number some during the year. Then ultimately, when we get to the point where we can reverse more of the DTA, we'll have obviously a big sort of negative tax expense or tax benefit in one of the quarters.

<Q – Henry J. Coffey>: And, I just didn't hear exactly how you put it. This is the – reversing the DTA as a 2011 event or beyond 2011?

<A – Donald F. Cole>: You know, I think the way I put it was probably not before the end of 2011. So, again, as I tried to say and I was trying to say before, the rules aren't exactly clear. We try to forecast on our profitability. The way we got to this was looking back 12 quarters and saying we were in a cumulative loss position.

At the end of 2011 we'll be looking at 2009, 2010 and 2011. We lost a lot of money 2009; we had net loss in 2010. So, it's going to be a while before on a pre-tax basis we kind of dig ourselves out of that hole from a bright line test. Again, we said we think if something before that is possible, but, it's hard to forecast it being anything before, sort of, thinking out the end of this year.

<Q – Henry J. Coffey>: You wouldn't want to see how they'd simplify the tax code on you – it probably just be, pay everything.

<A – Donald F. Cole>: We can be hopeful corporate tax rates might go down, but we don't – we certainly don't forecast for those items.

<Q – Henry J. Coffey>: Now, in terms of, I know that there's been a lot of discussion about this whole, quote, strategic alternatives, et cetera. As you sort of look forward, you are building up a lot of cash. You certainly have the resources to pay off the converts and the high-yield debt.

Is there a trigger point where, during the course of 2011, you work out some situation with the high yield debt holders and just pay it off, absorb the fees, the make holds, et cetera? Just given the cost of that note versus your cash accumulation, or is that really something you wouldn't think about doing until we got past paying off all the – both converts in 2011 and 2012?

<A – Donald F. Cole>: Well, I'm sure we're joined on the call by some of our high yield holders, so we probably don't want to speculate too much about what we'll do with their bonds. But, these things are – these decisions are part mathematically based, right. So we'll look at our highest use of cash, and we have lots of alternatives; invest in the bank; return to shareholders; or buy back debt. I mean, that's a very, I'm sure I'm avoiding your very specific question there, Henry, but all I can do is talk about how we would kind of frame our analysis.

<Q – Henry J. Coffey>: Well, you put together a great 2010, John, so congratulations.

<A – John K. Delaney>: Thank you.

<A – Donald F. Cole>: Thanks.

Operator: Our next question comes from John Stilmar from SunTrust Robinson Humphrey. Please go ahead.

<Q – John W. Stilmar>: Thank you. Good morning. I'd like to focus for a second; it seems with regards to the origination franchise or portfolio acquisitions at the bank that you seem to be targeting. Any more color that you can provide there on the types of portfolios that you're looking at?

You've done a great job in the past year of acquiring platforms. Is this more of a platform acquisition or is this more of a portfolio acquisition? And can you just kind of think, paint a little bit finer of a brush than the comments that you made in the prepared remarks?

<A – John K. Delaney>: Sure. When we talk about – when we talk about our originations for the year which was roughly, one point – as I said, it was \$1.6 billion; that did not include the acquisition of MainStreet lender which was our small business platform that we acquired.

So if you – if you add – kind of putting that aside, that's was about \$100 million portfolio that we acquired in connection with the acquisition. So, we – when we talk about our numbers we didn't count that acquisition as a funding during the year in our \$1.6 billion number.

In terms of the areas; where a large part of our portfolio acquisitions was in the multifamily area this year and then there were other areas as well. I think if you kind of sit there and look at it and say, what percent of our total portfolio, of our total originations were portfolio purchases? It was like in the 25% to 30% zone.

So we, quite frankly, view direct origination and portfolio purchases the same when we think about it from an origination perspective and we think there are good opportunities out there for us.

In terms of what are we looking at going forward, obviously, multifamily is an area that we will continue to look at, and has been a source of a lot of our portfolio acquisitions. But in addition to that, when you look at our other specialty areas, such as in the rediscount area or in our equipment finance area, that's an area that we would also be looking to acquire portfolios.

So I think anything that would fit into our specialty lending groups now is something – is a portfolio we're interested in acquiring. But in addition to that, we are also looking at lending platforms so that if we acquire a portfolio in addition to bringing in a team, we're certainly willing to entertain that as well.

<A – Steven A. Museles>: And those could be tuck-ins under existing businesses or new platforms that are in areas that we don't lend in right now.

<Q – John W. Stilmar>: If you were to prioritize, is it more on portfolios or more on platforms?

<A – John K. Delaney>: I wouldn't say – I wouldn't say we prioritize one over the other. I mean, we recognize that direct origination is a critical aspect of what we do. But, we're – we also recognize that, to the extent that our portfolio is out there and we can get a nice chunk of performing loans in one fell swoop, we absolutely want to do that. We go through the same level of diligence on the portfolio as we would on a direct origination.

However, let's face it, with portfolios you can get some built in economies of scale by looking at a large portfolio coming out of the box. So the answer is, we will look at both, you know, the more meaningful way to move originations is through portfolio purchases, but we are just as committed to direct origination as we are portfolio purchases.

<Q – John W. Stilmar>: Okay. And then, with regards to pricing – the pricing environment, you talked about top-line yields being in the 6% to 7% range. What would your guidance – what would that number have been last quarter? So how much of it is due to a more conscious decision to choose to originate certain types of assets versus how much of it is due to competition? You

alluded to both. But I was wondering if you could give us some clarity around the magnitude of each of those?

<A – John K. Delaney>: Well, I think if you sit there and say what was our – what was the all-in yield that we had during the fourth quarter? We were roughly at a 7% level. When I talk about, you know, kind of a narrowing going forward, the way I think about it is if you look at it relative to the spread that we are charging on loans. We have got different products, so they're all going to be based differently.

So, for example, if you look at our SBA and our multifamily businesses, the spread that we're going to have on there is generally going to be in the 2.75% to 3.25% zone, but that's also an area where we have lower capital requirements. And as a result, we can still get a strong ROE. Relative to the other areas that we are in, we are probably going to be seeing spreads in the 4% to 5% type range, maybe as high as 5.50%. But that's probably lower than the 5% to 6% spread range that we were at earlier this year.

<Q – John W. Stilmar>: Okay. And there's probably some up-fronts and other types of fees with that, or is that just the all-in?

<A – John K. Delaney>: Correct. So right; when you use the – that's right, when we talk about the all-in yield, I know most of the world is used to kind of thinking about spreads, but when we add in the amortization of our commitment fees and our exit fees, and the like, that's how we were able to get our yield up there.

<Q – John W. Stilmar>: Great. And then just one other point on operating expenses for the consolidated company. When should we start to expect progress on some of the opportunities on a dollar basis? Certainly you've alluded to the opportunities on a dollar basis going forward, as well as the pure organic operating margin from a rehabilitated portfolio.

But when we should we start to expect progress and can you give us any kind of clarity about the magnitude -maybe not significant, but is there anything that you can kind of point towards or maybe narrowband for dollars of expense savings over the coming couple quarters?

<A – John K. Delaney>: Well, I think, you know, in terms when you say, you know, when can we expect to find progress, I think we've had significant progress this year. If you look at where we were at the end of – for OpEx in 2009 versus 2010, we had a decline of roughly \$49 million on an OpEx basis. And I think, when you – so I think we've taken a lot of expenses out of the business. I certainly think we have more expenses that we're going to be able to take out. And as Don alluded to, a lot of that is going to be largely in the professional and workout fees.

I think in terms of where are we ultimately hoping to migrate to, I tend to think of OpEx as a percentage of our overall assets. And when you sit there and say, where do we want to be. We – our goal is to be getting somewhere in that 1.50% to 2% range. I think, we're going to be – we'll be getting closer to the 2% range originally, but I think, as – as we're able to accelerate our growth and, with the platform that we have, I don't see us really needing to increase our expenses significantly. And so, as a result, I expect us to be continuing migrating closer and closer towards that 2% and lower level.

It's also important to note, and Steve mentioned this when he was talking as well too, is if you look at what we did from a head count perspective this year, we actually had a reduction in our staffing level this year, but that was – despite adding 55 people that were there for the new platforms that we had. So, I think you're going to have, to the extent we're going to make investments in bringing in teams; we certainly want to be able to do that.

<Q – John W. Stilmar>: Thank you, guys.

Operator: Our next question comes from Douglas Harter from Credit Suisse. Please go ahead.

<Q – Douglas Harter>: Thanks. I was wondering, if you could help in reconcile the guidance that the cost of fund at the Bank would go up with the comment that the deposits you're renewing are, are, sort of – are under 100 basis points?

<A – Tad Lowrey>: Yes. This is Tad. The – there's two things going on there. One is our guidance is based on the forward yield curve. So there's an expectation that rates will go up and we will have to pay more for – for maturing CDs. We also are forecasting significant deposit growth as we finally outstrip our liquidity. And so there's a slight premium built in for that, whereas our deposits are roughly flat today. So we're paying down, if you will.

<Q – Douglas Harter>: What type of maturities are you targeting on your deposit growth?

<A – Tad Lowrey>: I would say we are targeting; well, we are offering between six and 24 months and we are having some success recently with getting depositors to go out as long as 18 months. We have about 20% of our new monies and rollovers that is coming in at 18 months which, of course, we view as favorably based on our rate forecast. But consumers are – they read the newspapers as well, and so the great majority of our deposits are – CDs are in the six to eight months range.

<Q – Douglas Harter>: Great. And then, just switching topics to the securitization. You have seen continued pay down there. When do you expect that those will start contributing cash to the Parent Company?

<A – John K. Delaney>: You know, I think it is still a ways out. If you look at the slide that's in our investor presentation you can see, they are all very different. The largest one, the 2006-2 securitization is still fairly highly levered and in turbo mode. That is not any near term cash return. The 2007-2 one is paid down fairly quickly; it is lower leverage. Depending on paid through repayments, that could be an earlier one, but we don't view that as a material source of liquidity, certainly in the near term.

<Q – Douglas Harter>: Great. Thank you.

Operator: We have time for one more question. And the question will come from Bruce Harting from Barclays Capital. Please go ahead.

<Q – Bruce W. Harting>: Thanks. If we're sitting here a year from now, looking at your progress for 2011, it just seems like there's a lot on the come here that's pretty positive. So, can you talk a little bit more about the Bank strategy? I mean, will we – a year from now, will we be spending a lot more time on the call talking about retail growth strategies for deposit gathering or?

In your thoughts, I mean, could you do an acquisition right now, a fill-in acquisition in your core retail market or your banking market or anywhere, over the next 12 months to grow deposits? I was just curious, John, what did you – the last company back that you had National Healthcare. What did that trade for as a percentage of book and earnings, if you don't mind, just a historical fact? And what are you seeing, if you can, what are you seeing out there in the M&A environment? Thanks.

<A – John K. Delaney>: Well, I'll answer your last question, Bruce, because it was directed at me and I won't have a very good answer. So it will give Tad time to think of a very good answer for the first part of your question. So, multiple of earnings that my last company traded at, I honestly don't remember because it was, at this point, 12, 13 years ago.

But I do – the multiple to book, I think we sold the business for two and a half times book value to Heller Financial and it traded at multiples higher than that and lower than that at different times. So, that was the final multiple. And the business generated kind of a mid-teens ROE so we could do the math on the PE there. So that's a kind of specific answer to your question.

I think generally speaking, the environment for M&A, I would probably describe as people are still very cautious other than doing deals that are very much kind of fit-in acquisitions and footprints they're trying to fill out, or deals that they view as assisted or highly attractive from a financial perspective. But it is generally still cautious on, you know, what I would consider larger strategic M&A.

I would expect that to change, though, as we continue to transition from a world that was shocked to a world that's feeling more normal. So, and obviously, the business is changing quite a bit. There's a lot of very large drivers going on that are changing the landscape. Deleveraging and shortages of assets and shift from non-banks to banks, et cetera. So, not a particularly well-crafted answer there, but those are kind of my high level views. Now, Tad can give you a very well-crafted answer to your first few questions. Tad?

<A – Tad Lowrey>: Okay. Bruce the – there was a series of questions there. Let me start with the M&A question, and that is we don't expect to do any M&A this year. We don't expect to be eligible to do M&A absent a charter change. We think the charter change will occur late in the year, which would then – would then allow us to talk about different retail strategies.

But for this year, we don't need to do an M&A to raise the deposits that we need and, absent some major change in interest rates, we think we can raise deposits not only cheaply from an interest expense, but cheaply from an OpEx. So, we really have our hands full for 2011 if we execute on the strategy that we laid out and can get an ROA of 1.5% with the operating structure that we have now. We can look towards 2012 to expand those products and services and to see what that new charter might bring us. But we really think we can achieve our targets in 2011 absent any of those changes.

<Q – Bruce W. Harting>: Okay. Thanks.

Dennis Oakes, Senior Vice President – Investor Relations

Thank you, everyone. Just a reminder that the replay of this call will be available later today. Thanks for listening.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC, FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2011. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.