MANAGEMENT DISCUSSION SECTION

Analyst, Barclays Capital, Inc.

Okay, good afternoon. Next up we have CapitalSource presenting. From the company today we've got Don Cole, the CFO and Dennis Oakes who is sitting in the front. Don joined CapitalSource in 2001; he was named CFO in 2009. CapitalSource is some of you may be well aware is another independent finance company that – thanks to the addition of a bank years ago provided liquidity, they needed to help manage through the crisis and look forward to hearing Don's comments on that, and I'll look going forward.

Donald F. Cole, Chief Financial Officer

Thank you, Mark. First let me thank Mark and let me thank Barclays, we had a great day here today. We think this is a great conference. This is a conference we target every year not just because of who attend, but it's good time of year, I think people are starting to get the summer out of them and focus on getting back to business and start to think about next year. So – and we've always had a good experience here, and we appreciate the conference.

Let me also thank those who have chosen to attend in person. Again, it is such a good conference, there are a lot of great speakers and I know there is some high profile competition at this time, but I appreciate you coming to listen to a little bit about the CapitalSource story to hear me speak today. And let me thank Dennis Oakes who is here in our audience, our Director – oh I am sorry, our SVP of Investor Relations. If you have any questions you can always follow-up with Dennis, but he and his team did a great job of putting together these conferences for us.

One last administrative point I'll make, there is a breakout session after this through our Q&A breakout session, it's in rooms Liberty 1 and 2 which is on the third floor and after our Q&A session here we're done we can proceed up there.

First page here, our legal forward-looking statements. I always try to come up with something so humorous to say about the forward-looking statements, but I've decided there is nothing humorous about securities law. So basically I'll leave those – you to read those when you have a chance and I won't waste your time reciting them.

Next slide shows sort of a bit of an outline for today's presentation. First thing I want to do is go over some of the key messages from the end of the second quarter. I realize that's a little bit dated at this point, but I think the messages and what we did in the second quarter are sort of reflective of our outlook going forward. Then I want to focus a little bit of time on CapitalSource Bank. As Mark mentioned, that's one of in the keys to our ability to both solve the credit crisis or survive the credit crisis, and it's our key strategic advantage going forward.

Then I want to talk a little bit about funding and liabilities, largely focused on our parent company, the non-bank portion of our business that went through a period during the credit crisis of liquidity stress, but again we feel like we've largely managed through that process. Talk some more about credit and we talk about credit a lot, obviously it's a key part of the story, and it's been the number one driver of performance over the last couple of years. And then finally talk about our year-to-date accomplishments in the way we view sort of the CapitalSource investment thesis going forward.

So first just starting around some background of CapitalSource, and again many of you know the story pretty well, but just to highlight, as first bullet point points out, we are a balance sheet lender. We've always been going back to our foundings in 2000 and we are celebrating our 10 year anniversary this fall. We're going back to 2000, we've always been a lender that's focused on

originating assets for its balance sheet. We are not a company that is looked to originate to sell or one to buy to manage. We've always originated, underwritten source and managed our assets, and we think that's always given us an advantage from a yield perspective and a credit outcome perspective.

The second key point about sort of our long-term success relates to our focus on specialty lending. As it says here, some of the key areas we focused on throughout our history include healthcare both in the real estate and asset-based space, lender finance, security lending, technology lending, places where we've had tremendous performance from a credit perspective and also good returns throughout the credit cycle and places we want to continue to emphasize going forward.

And then finally, the key part, as I mentioned, the CapitalSource Bank. We formed CapitalSource Bank in 2008, and we purchased the assets or small amount of the assets and the deposits from an existing troubled California institution. And the bank is extremely well capitalized, it has been since its inception has significant excess liquidity and the ability to grow its balance sheet into the future.

And we've paired that deposit base funding with our origination platform, which is a national origination platform in the specialty businesses, and that makes what we feel is a very powerful combination. Obviously throughout this credit crisis, the ability to attract funding for a business like ours has changed significantly. We used to be a lender that warehouse loans to securitize prior to deposit funding.

For us, others have tried this transition to a depository model and not had the same success we had. I think our success was driven by the fact that we saw the need for some of this deposit base funding early on. I had been working on some sort of deposit base funding strategy for several years, that allowed us to develop a business plan for deposit funding and actually get a good relationship with the regulators. So when the right sort of situation came around, which was that the predecessor bank I mentioned, we were in a sense hanging around the hoop and ready to go.

So it was really our preparation and thought going back many years that allowed us to be able to take advantage of the bank strategy when this specific situation presented us. And frankly without the bank, I mean it's difficult to predict where we would be, but certainly it wouldn't be in as good a position as we are today.

Looking to the second quarter and some of the key messages taken away from the second quarter. In the second quarter, our loan loss provision declined significantly from the first quarter to the tune of 220 million down to 25 million. And that was largely due to the improved credit performance of our book and us seeing stabilization and the credit trends.

And we continue to decline the cost of funds at CapitalSource Bank down to 1.37%. And just for comparative purposes, the cost of fund to the bank in the second quarter of 2009 was 2.58%. So you can see we are cutting it almost in half. We've accelerated loan growth in the second quarter.

New funded loan originations were $441 million, which exceeded our pre-announced targets of 250 to $300 million for the year and compares to only 243 million in the first quarter and was actually our highest origination in the quarter for the entire company since 2007. Subsequent to that quarter, we've increased our going-forward targets to 300 to $400 million a quarter to reflect what we believe is that continuing success in originations.

Third bullet point here talks about improved liquidity, and again this is focused on the parent company. As I mentioned through our old funding model, when the crisis hit, we were a little bit mismatched in terms of having some long assets with short-term funding. Clearly not as bad as a situation as others when we did have a fair amount of match funding, but we've worked very hard through those two years to sort of add some duration matching to those, and we've now built our

parent liquidity back to $376 million, which is a high watermark for us since the beginning of the credit crisis.

And then finally the stabilizing credit that I mentioned, our delinquencies were down, our non-accruals were down a little bit and ultimately just in the overall look of our portfolio and seeing some of the resolutions we've been able to realize in terms of asset sales at or above our mark helps us to reinforce our view that we sort of reached the end of the reserving process for our legacy portfolio.

Turning to the bank, this slide gives a little detail of the bank. Again, I mentioned we formed it in 2008 and it's a deposit based – retail deposit based franchise with Southern California deposit branches. You can see it has $5.8 billion of assets, one thing I've highlighted here we have $2 billion of cash and investments, that significant excess liquidity that we're looking to redeploy into loans.

This slide used to have an "A" Participation that we acquired when we formed the bank which was a senior participation in a large pool of real estate assets, that is effectively now paid off, it started close to $2 billion, and at the end of the second quarter was down to about 100 million.

So you can see that's providing an additional source of liquidity that we've been using to fund the bank's loan originations. Now that that's gone, we hope to use some of this cash and investment and excess liquidity to continue to fund originations and help to – that will increase the overall net interest margin within the bank as we redeploy lower yielding investments into our highly yielding loans.

This slide talks somewhat qualitatively about our key sort of business origination strategy, and as I said at the center, our fundamental asset strategy has remained the same throughout the life of CapitalSource. We've added or subtracted certain platforms, but essentially the fundamental strategy is the same. And starting at the top, we've always focused on the mid market and now we've broadened to sort of move down the spectrum a little bit to some more small business. But it hasn't been the large businesses, we've been focused on a middle market lender and now a small business lender focused on businesses looking to borrow for growth, acquisitions, recaps or working capital.

We source our loans using our own direct origination capacity. Again, we don't buy loans in the market. And as I mentioned before, we view that as our ability to control our pipeline better and control the credit outcomes better because we know the assets better when we source them on our own. And all of our industry teams have very deep contacts in with the equity owners, with the equity sponsors, which provides us the competitive advantage in terms of our sourcing strategies.

Going around clockwise, the – guess you could say that's about 5 o'clock, I mentioned before, again we've always focused on or we focused on specialization and that's where we had our best performances. Specialization meaning healthcare as a main specialty, security lending, technology lending, lender finance, those because of our specialty expertise and our direct teams have both had higher returns and higher credit outcomes.

During the period of 2005, say, through 2007, I think we would admittedly say we went into some areas where there are not such amounts of specialization, I think that's where we got ourselves hurt the most where more commodity loans, more commodity pricing and ultimately, unfortunately more market-driven leverage beyond where we probably should have gone as others did. And I think learned from that we've refocused ourself on these specialty areas on a go-forward basis.

Continuing to work around, in addition to those historical specialty teams, we've been working to add new origination platforms to our bank model knowing that there would be a serious challenge for banks to grow assets in the current environment. So we've worked to add first at the beginning

of this year what we call our corporate asset finance team, which is really our equipment leasing team and they came on board in February and immediately started producing loans. At the end of the second quarter I think they had a balance of about $80 million in the bank.

The second team or business we added is, in the second quarter, we purchased an SBA lending business. And again, this was a business that we had previously lent to. It was one of the largest non-bank SBA lenders. So we knew the business well, we knew the team well, the team had a very good relationship with its SBA regulators, it was a preferred lender and we've been able to bring that preferred status to our bank. And at the same time, we brought $100 million of their portfolio on to our balance sheet and they are again already originating assets for our bank.

And then finally just this past week we announced that we brought on a team in a Professional Practice Lending business that essentially focuses on medical practices and lending to doctors and veterinarians and dentists. And they again have a lengthy track record of originating assets of very high credit quality in that specialized business. So we'll continue to seek to find these complementary asset platforms where they make sense and where they fit well into our business. They are not a high upfront cost for us, and we think they'll hit the ground running in terms of generating assets.

And then finally the last bullet point, we use our own in-house underwriting process where we use our own underwriting officers, our own diligence teams, and ultimately our own asset servicers, so that we have full knowledge of what's going on with the credit, understand it well and are able to get the credit outcomes while still maintaining the yields that we search for.

Slide nine shows you our sort of historical runway of funded originations. And as I mentioned, the second quarter of 2010 was our highest origination quarter since 2007, and you can see it's by a significant margin. In addition to just the size of the originations, it also for us is important that we've been doing it in the areas where we want to target the most, much of our originations in the second quarter were in that healthcare space, both healthcare asset base and healthcare real estate. We had a fair amount in the equipment finance team that we added, and we also did some in our security space and our technology space.

And what we've not done much in – much origination in is the general sort of commodity or general cash flow lending or non-stabilized real estate lending we historically did. We basically are doing no more the non-stabilized real estate and we've de-emphasized general cash flow lending unless the leverage points or the yield really makes sense. So we've gotten much more disciplined in terms of the asset types we're going in and couple that we've also become much more disciplined in hold sizes and we're not going near the hold sizes, in some cases we went to in the 2006, 2007 time period. And based on this output or outcome in the second quarter as I mentioned we've raised our going-forward target for originations for the rest of the year to 300 to $400 million a quarter.

This next slide is a new slide that I don't think we've presented before, and it focuses on the bank and separates the bank and portfolio into really two components. When the bank was formed, it was able to purchase about 2.2 billion of loans from the parent so called its legacy book, and since that time it's originated its own assets. And so you can see the legacy column of this, looks a lot like sort of the old CapitalSource with significant amounts of commercial real estate and cash flow supplemented by our healthcare and asset-based loans.

The non-legacy portfolio of the new originations, again you can see these new asset platforms starting to take hold. The corporate asset finance team, as I mentioned, had about $80 million of loans at the end of the second quarter. The SBA team, that is the small business portfolio that brought with it or we purchased when we acquired that business. And then multifamily lending is a new business that we've gotten into on the bank side, it gets favorable capital treatment at the bank, sort of allows us to achieve our ROE – long-term ROE hurdles despite the fact that there are somewhat lower asset yields on that business.

And also I'll just point out, you can look at the healthcare asset-based columns, see how much more we've done since the bank formed and where we're able to transfer over at the time of the bank's founding. We're very much focused on that type of lending in the bank on a go-forward basis.

The next slide just give you some of the relative balances of the parent versus the bank. We've used the phrase inflection point a couple of times. You can see we're clearly reaching an inflection point where the bank will be larger in terms of the loan portfolio than the parent. The bank is already larger in terms of assets than the parent was either at the end of the first quarter, it was closer certainly by the end of the second quarter. So the bank is a larger segment of our business than the remainder of the parent.

One of the things that's not spelled out in the presentation, but we get a lot of questions about is our plan to convert the parent to a bank holding company. We view this as a very important step in that progress. And we think making the parent smaller will be helpful to the regulators and their evaluation of us getting better – working through some of the credit issues at the parent and working through turning the company back to earnings are other key factors. But we think as the parent continues to shrink and the bank grows, that's helpful to that process.

Next slide goes through the net interest margin at the bank over the last few quarters. And a few things you can see here, one of which is that the top line, the yield on interest earning assets line has come down a little bit despite some growth in late 2009 over the first couple of quarters of 2010. That's entirely driven by the fact that the bank has seen its percentage of non-performing or non-accrual assets increase.

And the drag on the net – the yield on interest earning assets for example in the second quarter was about 60 basis points in the bank versus the second quarter about 30 basis points. So, you can see essentially the full decline can be explained by the increase in non-performers. We think we are at the end of that, near the end or at the end of that increase in non-performers and over time we expect that to reduce down to a more normalized level. I think the bank's non-accrual assets are north of 10%, if that moves back down that will lead to some interest margin expansion.

Additionally, I think when you look at the pure yield on interest earning assets, as I mentioned, you saw we had a $2 billion cash and investments portfolio. That's well in excess of what we need to be in a good liquidity position, so as we redeploy those assets into loans by the mix shift, it will help us increase the yield on interest earning assets and thereby the NIM.

One of the things I'll point at the bottom, you see we have – had tremendous success in reducing our cost of funds. Our cost of – total cost of funds was about 1.4% in the second quarter and cost of deposits of about 1.3%. We have limited ability to push that any further down, but we are putting our new money at this point about 1.1%. So there might be a little bit continued improvement in that area. We think we basically sort of squeezed as much as we can out of that in terms of contribution in NIM and now we'll be focused more on sort of the asset yield side.

This next slide drills in a little bit more on deposits. The orange line here shows you what I just mentioned which is you can see the new money that we're putting out is down about the 1.1ish percent range. I kind of look at the slide in three or four time horizons, if you look at the earliest time horizon going back to summer of 2009, you can see we were in a sort of deposit runoff posture where we had excess liquidities I mentioned, but also excess deposits in order to kind of reduce the cost of funds we allowed our deposits to runoff to some extent.

Starting at the end of 2009, we went into more let's try to hold deposit levels where they were, but as we saw sort of competition bleed out a little bit, you'll see through the early part of 2010 we actually saw grow our deposits back. So in some sense we proved to ourselves that based on rate

we do have the variability to increase deposits even though we were still bringing cost of funds down during that period. We just want to bring them down as fast perhaps as some of the competition would have indicated.

And then in early part of 2010, some of that stabilization in a little bit where you see the new money rates going up, we had tried to extend some of the durations of the deposits by pushing our maturities a little bit to take advantage of the yield curve. And so you saw a little bit of the money going out, but again we're seeing without too much decline in deposits currently we're able to put the new money out at a much lower rate. There is much more detail on deposits in the appendix if you want to have a chance to look starting on page 34.

Next slide talks about bank capital. Obviously capital ratios are something in the forefront of the news this week, starting from our – the left side of this, which is our risk-based capital ratio. We have a regulatory requirement to be at 15% currently well capitalized and viewed at about 10%. You can see we are pushing up towards 18% and actually this is the highest level we have been at since inception. Dipped down a little bit throughout 2009 and into early 2010, but we – it's been restored to almost the highest level on a risk basis since our inception.

And then the tangible common equity or tangible assets, again, as I said, 3 or 4% is generally considered minimal requirement, obviously what we have seen is that moving towards 7. That creates a hold for certain banks and they need eight or nine years to get there. You can see we're already in the 12.5% range. So we are well in excess of where even these TC requirements are going to. And again, if you want to see the trend in our capitals, I mentioned our levels – you can – there is a slide on page 36 in the appendix.

Next slide talks about the bank's expense ratio and based upon our company structure, this can be a little bit volatile. One of the things that moves it around or one of those significant variable cost of the bank is our originators are still in our parent, which is sort of a legacy issue with our original forming and our original order. So, the bank pays the parent a sourcing fee for all its loans and because we had such a high origination in the second quarter you can see how that's spiked up a bit.

But ultimately the bank's cost structure is largely fixed, and it has infrastructure to support significant loan growth and significant deposit growth. So we view it as a very efficient model that we can actually grow without adding too much in our fixed cost base. So there is operating leverage that we can still get out of the bank business model.

This slide gives information on the credit trends for the bank in the second quarter versus the first quarter. You can see the bank's loan loss provision was much declined much like the consolidated was, and that led to a decrease in the overall allowances of the bank that have charge-offs. Again that's a reflection of the loans we were charging-off in the second quarter, where loans that either had existing specific reserves or ones where our general reserve allocation would have been significantly high. So essentially I would say we expected those ultimately to charge-off.

You can see there were some uptick in near term delinquencies, although that was largely driven by the acquired SBA portfolio and some of those loans that came across this are the existing delinquents. And then you can see there was some uptick in non-accrual loans, again largely driven by our real estate exposures, as we mentioned before, and not surprise assets that had moved into that category.

This slide gives you a historical trend of the bank's allowance and as a percentage of loans. And again as I mentioned, you could see that it did come down in the second quarter from where it was at the end of the first quarter to about 4.7%. And that was largely again as I mentioned based upon charging off loans where we had expected the charge-off to occur. But as you can see from this

slide, it still shows that our allowance percentage as a percentage of loans is still about two times banks of a similar size.

And then going forward, the credit quality outlook for the bank, again we expect this quarterly provisioning and total reserves that came down in the second quarter to be – provisions to be somewhat uneven from quarter-to-quarter, but to be a – at this more reduced level that allows the company to maintain profitability. But we think we've taken enough reserves on the legacy portfolio to cover future charge-offs.

And then our charge-off perspective, we expect charge-offs to remain elevated largely because we have this sizeable reserve that for it to move down to where we think long-term allowance will be ultimately that means we expect to take some charge-offs. And again we sort of focus that on the next four to six quarters where a lot of that charge-off activity will take place. And as the last bullet point points out, again it's not a big surprise that much of the charge-off activity especially at the bank has been concentrated in commercial real estate.

And so the key takeaways on the bank, we are increasing originations and we are able to put them into high yielding – good yielding assets and to improve our asset mix. And you can see our – as I mentioned, our quarterly origination targets moved from the 250 to 300 to 300 to 400 for the second half with some of the new product lines we've added. Cost of funds, we've worked to really decline and bring down, you can see it's gone down almost 50% since the year before, and we expect it to remain low for the rest of 2010.

Credit, improving credit performance has resulted in lower loan loss provisions, and we expect credit to remain relatively stable and future provisioning to remain stable going forward. And then finally, we're working to very much optimize the bank model, and that means continuing to manage our deposit levels and our rates to help improve net interest margin, but also to leverage our – as I mentioned, our fixed cost operating structure, and most importantly to grow the balance sheet of the bank by adding loans both utilizing existing liquidity and improving our asset mix.

So turning from the bank to the funding and liabilities, which is largely a parent discussion. This slide shows you how much debt we've paid down over the last six quarters and you can see we paid down over the last year and a half almost 50% of our parent company debt. Much of that is in our – securitized debt tools are paying down, our credit facilities are paying down and we sold our healthcare net lease assets all the mortgage debt associated with that pay down.

And then the story here is just the parent continues to delever, continues to rapidly pay down its debt and we'll continue to focus on doing so. And there is much more detail again in the appendix and you can see page 40, if you want to see some of the specifics of some of the debt facilities that paid down.

The next slide shows the remaining parent recourse debt maturities going through – going out several years. The 2011 maturities, our syndicated bank facility, that's down to about 135 million funded at the end of the second quarter. And again, we expect that to pay off naturally through the loans that are funded by that facility through the loan payoffs that credit facility will pay down. And then the remainder through 2012 are the – roughly $550 million of converts. And again we view based on our cash position at the end of the second quarter $376 million, and the cash we'll be able to generate through the portfolio that the cash solution is our most likely and preferred outcome for paying off those maturities.

And then you look out further, we have our senior secured notes of about $300 million due in 2014. Again our asset run-off will provide ample cash for that and then the trust preferreds are – if it's greater than 2014, they go out something like 30 years. So a lot of those are 2030 and beyond, and again those are no covenant, L175 type debt, so not sort of our radar screen to deal with at this point.

Moving towards some consolidated credit outcomes. Again, there is a whole lot of data on credit and we talk about it quite a bit in our calls. And we provide a lot of information on our quarterly. If you go back to the appendix here, there is between pages 44 and 57 a lot of data, but I'll just hit the highlights here.

As I mentioned, our quarterly loan loss provision came down quarter-over-quarter and our allowance declined. On a non-performing loan basis, our non-accrual loans decreased, that was actually the first time we've had a decrease in non-accrual loans in a couple of years. And short-term delinquencies down – were down quite a bit while the 90-day delinquencies were up a little bit.

And then charge-offs, charge-offs, as I mentioned, they increased in the second quarter over the first quarter, concentrated largely in commercial real estate. And again because of our roughly $580 million of allowance at the end of the second quarter, we expect to have charge-offs, we expect to use that allowance for charge-offs in the coming quarters.

Outlook for the second half of 2008 – or I am sorry, 2010. On asset sales, we had portfolio sales involving our loans in OREOs that have started to see some actual bidding activity, and we've been able to sell them at amounts of our book value. So we view that as a very positive sign for our ability to monetize some of our problem assets going forward. Again, we think our income statement provisions for the balance of 2010 will be I think consistent with 2Q and significantly lower than in the prior quarters.

Thinking about sort of new possible problem assets, you can see in the commercial real estate space there is only three large remaining unimpaired legacy real estate loans. And when I say large, I mean over $25 million and the total balance there is only $88 million. And when you think about some of the loans we've had, $100 million north exposures in CRE that have caused us our largest problems, that's a very greatly reduced balance of potential future problems. And then again our internal loan ratings as we mentioned are showing signs of stabilization across the portfolio.

Moving to the year-to-date accomplishments. We're becoming a simple – certainly a simpler story by selling the remaining Healthcare Net lease assets, we no longer have that Healthcare Net Lease segment, so we are basically down to the bank and the parent working to deconsolidate our 2006-A commercial real estate trust. We'll again further shrink the parent, further reduce the – what – beyond balance sheet real estate exposure.

We've delivered, I mentioned we've repaid $1.4 billion of debt, you can see how much securitization debt and credit facility debt and also the Healthcare Net Lease mortgage that we repaid, and that '06-A securitization at about 890 million of debt at 6/30.

We've been working to expand our lending platforms and we've added the corporate asset finance, the professional practice and the small business lending groups, and we've improved – continued to improve the parent liquidity profile.

Additionally, we're continuing to work to manage our credit performance and our credit outcomes. We've built the reserves throughout the beginning half of 2010, so that we feel like we completed the reserve build for our legacy loan projected charge-offs. And total allowances still 7.4% at the end of the second quarter.

And finally, the key growing CapitalSource Bank, I mean and continue our transition of the overall company to a pure bank model. You can see the bank's closed $900 million or so of new loans through the first half of the year, on a commitment basis funding almost 700 million of that, all-in underwritten yields of over 8% on that portfolio. Net interest margin again up on a year-over-year basis significantly by quarters, cost of deposits down significantly and total assets in the bank as I mentioned now are greater than assets in the parent. And again focusing on that, one of the things

coming into the year, we're clearly focused on as we return to profitability and we saw that happen in the second quarter. And now we are very much focused on originations and optimization of our bank model and clearly the originations both in terms of the dollar size, the asset mix and the yield we've been able to achieve in the first half of this year we view as very positive looking forward.

And then finally, continuing to manage that parent book down, you can see how much we delevered and will continue to work to manage both the asset portfolio at the parent and the liability portfolio.

Finally, we view is that the CapitalSource investment thesis and why we think CapitalSource is an attractive investment. As it says in the header, as I've said before, we're overall trying to simplify our business model and focus on a more pure business model. So you can see a viable and stable long-term business models in place. We have the national origination platform that we've had largely since our inception that we've added to with some of these new portfolio groups we've added, and we paired it with the bank deposit funding.

Both the parent and the bank had very high capital ratios; you saw how high the capital ratio is at the bank compared to where regulatory guidance is today, and where it even is going to. The parent has even higher capital ratios on a tangible common equity basis. And we expect our pre-provision earnings to grow over the next two to three years if the bank continues to make these loans with attractive yields and redeploy its capital and shift its asset mix.

Credit is stabilizing, lower provisions in the second quarter was a positive indicator. We expect that to continue throughout 2010. We think the reserve bill for the legacy portfolio is done. And we think charge-offs will return to more normalized levels ultimately through 2011 and into 2012.

Sustained profitability and accelerating loan originations are just beginning. As you can see this was the first quarter where we had that significant loan growth and we've projected it now to continue for the next – for the rest of this year and you can see beyond, we think 1.3 to 1.5 billion total for 2010 and growing into 2011.

On the liquidity profile and book value of the company are improving. At the parent, you can see, I showed you the debt maturity schedule; there is no recourse debt maturities until next July. And our DTA valuation allowance represents substantial deferred book value, and again there is a slide we included in our last few presentations on the DTA at the end of the appendix.

So with that, I think we have a few minutes. We can go to a question-and-answer period. And as I mentioned before, there is a breakout session in Liberty 1 and 2 on the third floor when we run out of time here.

QUESTION AND ANSWER SECTION

<Q>: Yeah, another champ at bank model, can you kind of just comment on your commitment size to a deal and then ultimate hope? And then as far as the parent goes, you're just winding the loans down, you're not originating anything at the parent now?

<A – Donald Cole>: So, I'll answer the second first because the easiest answer to that is yes. We are not originating any new loans at the parent. We're working through that portfolio and working out the existing loans we have, but we're not originating any new loans. On the bank hold size, there are hold sizes by asset type. I believe sort of the rough standard loan size, hold size is about $50 million.

We will go higher in asset-based deals, in more diversified collateral pools, but we are trying to keep it at a much reduced level compared to where it been before, and in the cash flow space more in the 15 to $20 million range. Historically, those numbers – we have some CRE exposures on our balance sheet, certainly in the healthcare real estate space that got upwards of $300 million. So you can see we've significantly reduced where our overall hold sizes would go. So they've come down quite a bit.

<Q>: You showed that your cost of funding has come down substantially and also talked about how you're going to deal with the convertible maturities over the next couple of years and leaving the hybrids outstanding. But the secured debt that you have on your balance sheet right now is pretty costly, just wanted to know what your thoughts were along dealing with that maturity?

<A – Donald Cole>: So I would say, there is two categories of secured debt on our balance sheet. One, our on-balance sheet securitizations, which are fairly well levered and actually fairly cheap and there is a slide that shows the cost of funds, which many of which are in the L50ish or south range. So that I think – those are non-recourse; their securitizations will run-off if they need to run-off.

So the other piece of secured debt I guess is our other secured credit facilities and those range from the L400 to L650 range. The L651 is the syndicated bank one, which I mentioned is running off with the assets. So that will run itself off. Cost of funds can improve there if our credit rating improves, that's sort of credit rating pricing grid. But that will run-off over the next year just by its own terms. And then some of the other secured credit facilities range from I think about L350 to L450, which while not comparable to where we were in the past or with the bank actually is somewhat attractive funding for us versus other sources.

The other piece that's technically secured are the high yield notes, the 2014 notes, those are by far the most costly in our entire capital structure, they were 12.75 coupon and they have a higher yield than that. Those I mean I unfortunately I think we're sort of stuck to live with them, there are no call liabilities and they have a very high sort of redemption premium to them. But hopefully they're a fairly small percentage of the overall consolidated debt and deposits, so they shouldn't have too much of a drag on NIM, but I think we're going to have to deal with that through their natural maturity. [inaudible]. We have one in the front.

<Q>: When you talk about the potential to expand the margin as you redeploy assets in the bank and the higher yielding, is that mainly focused just on redeploying the "A" Participation or are there a number of legacy lower yielding assets where as those repay you can replace them at higher yields?

<A – Donald Cole>: I'd say it's focused in two areas. The first would be the non-performers or the non-accruals. I mean we have a 10% plus non-accrual balance at the bank, so clearly working through those and putting those in assets that actually are in interest from a GAAP perspective will

be helpful. I don't think there is other pockets necessary the overall loan portfolio that need to be moved out, I think the key part then about the mix is from an interest earning asset perspective is if you look I mentioned we have this $2 billion liquidity portfolio of cash and investments. That obviously yields much less than our loan assets that we're putting on at 8.5%, that should shrink some, but ultimately the overall book should grow and therefore there will be a percentage shift towards the loan assets as we grow that.

To some extent, it was the "A" Participation over time. I don't – that was yielding in some quarters in the five and sixes because of discount accretion, not as high as loans, but certainly better than investments, now that that's effectively gone, there is a little bit of mix shift for that in those proceeds, but ultimately I think that over excess liquidity we have in the bank we need to use to make new loans and grow the bank's loan balance sheet. So between new loans and the non-accrual decrease that will be what will it will increase the yield on assets.

<Q>: Sure, and then at what pace will you look to deploy that liquidity portfolio?

<A – Donald Cole>: Well, I think we mentioned here the loan growth pace of this sort of 1.5 billion loan origination for the year. I think sometimes hard to project run off, but if you think about a $1 billion loan growth per year, you can see us using up some of that – now that the cash that was coming off the iStar is gone, you'll see we'll have to dip into that liquidity portfolio to grow the asset sort of that net billion dollars a year. So I – that's essentially the pace [inaudible] percentage or a decline, but it will be to use that liquidity portfolio and obviously 2 billion of loan growth, you're not going to use it all, we need to keep some liquidity level, I think 10% of assets is about a good liquidity level, so the rest would be sort of deposit growth as we continue to grow the balance sheet.

<Q>: As the portfolio of loans and kind of assets of the parent company kind of liquidates, what do you guys plan to do with the liquidity at the parent side?

<A – Donald Cole>: So, we've a few things going on right now. Any of the loans that are in a secured credit facility or a securitization, all of those repayments go to delever. So it will be to pay down debt effectively. The remainder of the cash that we're generating now certainly in the short term through the middle of 2012, I mentioned the $550 million converts so we'll have to use cash for that.

So I think in terms of the parent company having sort of excess cash, if you will, you're talking about a 2013ish kind of situation. And then I think we'll have to sort of see what the track at that point in time, the high yield term notes will only have another year, year and half of term to go. So it depends on what our choices of use of funds are at that point. It could be if the bank is growing at a decent clip, we can put some in the bank. But really it's a 2013 issue, so obviously a lot will between now and then to sort of educate our decision.

<Q>: Can you just walk me through the 1.5 billion of organic loan demand, just kind of where that's coming from? I mean, just kind of – at the conference we're hearing a lot of no loan growth, negative loan growth, who knows when it's coming back, obviously yours doing different kind of loans than anyone else is that the only explanation or is there something else going on?

<A – Donald Cole>: I think it is that sort of some of the specialty platforms we're in and some of the new ones we've added. And again, I don't think we've given too much guidance on an asset-by-asset, but you can look at something like that slide on slide 10, it gives you where the bank is in terms of its new originations, you can see our equipment finance team had a 60 million or an $80 million balance at the end of the second quarter, and it's only been around for a little over a quarter. So, clearly we are focused on originating those types of asset-based assets.

Our healthcare business has grown well. So that's always a target and we've had very good performance at healthcare real estate and healthcare ABL. This new Professional Practice Lending

Group we added, we expect that to be a $100 million a year or so business. So it's really the sum total of all our prior existing businesses and a few of the new ones we've added, but to reemphasize we're not doing sort of generic cash flow lending or sort of non-cash flowing real estate assets as we may have had in the past, I see we are at zero, but--.

<Q>: Just a quick follow-up, so then are your customers or people borrowing do they not have this and who are afraid to take a loan out attitude for the rest of the --?

<A – Donald Cole>: I mean I think that's right, I mean there still are transactions going on, I think in the healthcare real estate nursing home space, there are still people buying or refinancing their existing nursing home loans, and they are not under water on their real estate values. In the healthcare ABL space, there is still operators that need to finance their working capital. A lot of this equipment leasing is sort of moving some assets from other competitors, so people are either – were either buying pieces of existing deals in place or people do need to refi what's out there.

So some of the productive asset type loans that are in the market that need to be refinanced, we're participating in. There is not a tremendous amount of LBO activity for example or a lot of new sort of acquisition transactions, but there are some that we've seen. So we are more focused on some of this sort of ongoing business need lending versus pure transaction base more that we were relying upon in the past. I think that's probably the last one we can take, so we are out of time, but again Liberty 1 and 2 on the third floor is where our breakout session is.

Analyst, Barclays Capital, Inc.

Great.

Donald F. Cole, Chief Financial Officer

Thank you all. I appreciate it.