MANAGEMENT DISCUSSION SECTION

Scott Valentin, Analyst, FBR Capital Markets

All right. Good morning everyone. We're going to get started with the session. My name is Scott Valentin. I'm an analyst at FBR that covers CapitalSource who will be our presenter at this session.

Just to give you a quick background on CapitalSource, they are basically a commercial lender that provides basically middle market loans to a variety of businesses, also offers depository products with a branch network located in Central and South California.

As of September 30, CapitalSource had about 9.6 billion of assets, about 4.6 billion in deposits. It's been a very interesting story. For you that don't know the story, it's transitioning away from a specialty finance company that was funded by the capital markets to a branch or a deposit-based model whereby they do have a 22-branch network in California. A community based bank gathering deposits from retail customers, and then reinvesting those proceeds into the lending platform.

And in my universe, I cover banks and specialty finance companies. They're one of the few companies that's been able to grow assets. They've actually, at the bank, they've been moving, letting the holding company assets come down as the capital markets ABS securities pay down and basically reinvesting or taking deposits investing in loans. So, they've had very good activity in the loan side. And again, one of the few companies I follow that's been able to grow the loan portfolio at the bank level.

So, with us today is Steve Museles. He is the Co-CEO and a Board Member, but presenting will be Don Cole, the CFO. I'll turn it over to Don.

Donald F. Cole, Chief Financial Officer

Thanks, Scott. First, let me take a second to thank Scott and thank FBR for hosting us. We have a long historical relationship with FBR. It's nice to have a firm that's in our own backyard down in the DC area. FBR has worked with us on our IPO. We've worked with them in investment banking, obviously analyst coverage, and actually worked with them on sort of the deal sourcing. So, we have a very long and productive relationship, certainly for us with FBR. So we always enjoy coming to this conference.

Also, just quick by way of introduction I know Scott mentioned Steve Museles, who is right up here in front, one of our Co-CEOs and board members. In the back, Dennis Oakes, who is our SVP of Investor Relations. Many of you, I'm sure, know him. But if you want some follow-up information, Dennis is a great point of contact to reach out to if you want some more follow-up after today's presentation.

Again, thank you all for attending today. I certainly see some familiar faces, but I see some new faces. So it's always good to have people wanting to hear the story of CapitalSource. And with that, maybe I'll dive right into our presentation.

First slide, forward-looking statements. Again, you can read this in the presentation. It's obviously very long and a lot of legalese, but it's obviously an important statement for people to read for obviously legal purposes or if you need to help yourself find a way to get to sleep at night.

A little bit of outline about what we're going to talk about today. Scott mentioned this holdco running off in the bank. So we'll focus on an overview of the company in total but also hone in on some of the key points of the bank. We're going to talk a fair amount about what happened in the third

quarter and some of the key takeaways from our third quarter performance. And then we'll focus going through the bank and talking about the parent company and thinking about credit, which has become a much more stable and less key part of the story, which we're certainly pleased to talk about. And then focus on the total year-to-date accomplishments and give you a sort of sense of what we view the investment thesis is for CapitalSource at this point.

So if you're new to the story and just trying to think about how to understand what CapitalSource is, as Scott mentioned, we are a middle-market and now a middle and small market, lender – commercial lender, principally to businesses. And since our inception, we've been a national lender lending to these middle-market businesses across the country. With the opening of CapitalSource Bank in 2008, we have now taken that national origination franchise and paired it with a regional bank depository, which we view as giving us very competitive advantages in both those areas.

First of all, the bank is in California, Southern California, which is the second largest deposit market in the country. It's a very attractive deposit market in terms of its demographics, and it's a fantastic way for us to fund our business. And then complementing that we have this national origination franchise that we've grown over 10 years. And so, unlike other regional banks, we have the ability to originate assets in our specialty markets across the entire company.

We are a balance sheet lender. We originate, source, underwrite, close and service loans on our balance sheet. We're not an originate-to-sell lender. We're not looking to buy loans principally in the marketplace. We think this creates strategic advantages in terms of our ability to source more loans than others, and we've seen that certainly in this marketplace and, frankly, to get better credit outcomes.

One of the ways we do that is to focus on the specialty lines we've built up over time. The company has a long track record in lending to healthcare companies. John Delaney, our co-founder and our chairman of the Board, had a healthcare lending company prior to CapitalSource. So we have a very long historical ties to healthcare lending and have achieved very sizable returns with fantastic credit outcomes. But we also have specialties in the lender finance area that we've, again, been with for 10 years. And security and technology lending are areas that we especially sort of highlight because of our ability to get, again, good credit outcomes.

And we structure those loans as either asset-based type loans where we have some sort of collateral borrowing base or equipment to back the loans, as cash flow loan based upon the ultimate value of an underlying business or as a real estate loan. Again in healthcare, we do a fair amount of healthcare real estate lending with other commercial real estate lending. As I mentioned, finally, the pairing of that with the depository what, we feel, gives us a really a sort of leg up competitive edge distinguishing characteristic from other either whatever remaining finance companies there are but also amongst the other regional banks.

Just a quick highlight of the bank and its footprint. You can see from the right-hand side, it's principally headquartered and the branches are principally located in Southern California. It's a retail deposit network. We're not – we have no broker deposits in our bank. So all retail deposits – it is an ILC, so there are principally CDs.

And another takeaway from this on the bottom left, as you can see, the bank has extremely strong liquidity. It has about 1.7 billion of cash and investments as of September 30 and very high capital. About 900 million of capital, which we'll show you the capital ratios later, but it certainly puts us above our peer set and even above where our sort of minimum levels are. And that capital has been growing in recent quarters as we've returned to profitability both at the bank and consolidated.

Some of the key takeaways from our third quarter of 2010. In the second quarter of 2010 was our first quarter of profitability since 2008. That was one of our strategic goals for 2010 was to return to profitability. That happened in the second quarter and, again, it continued through the third quarter.

In the third quarter, we made $0.24 a share. Also in the third quarter, one of the focuses has been to increase the margins at the bank and both the parts of that calculation improved in the third quarter. The bank increased its loan yields and sought the funds, which affected our net finance margin or net interest margin at the bank by about 50 basis points. And, again, we'll show a little more detail on a further slide.

Another key strategic initiative for the year was to grow our originations. Obviously, during the credit crisis as market conditions slowed down, we slowed down our ability to originate loans through 2008 and 2009. So, we came into the year focusing on trying to originate somewhere between 250 and 300 million per quarter.

Over the last two quarters, we've originated more than 400 million. So, we've been way above our targets, and we've actually increased our targets in the middle of the year to 300 to 400 million. So, you can see we're about 1.1 funded through the third quarter and another 300 to 400 million in the fourth quarter will put us close to the $1.5 billion mark of new loan originations in a marketplace where, obviously, people are having trouble sourcing assets.

Our balance sheet continues to strengthen. At the holding company in the third quarter, we de-consolidated our 2006-A securitization trust, which was a non-recourse CO that we had set up in 2006 and had a lot of real estate loans of 2006, 2007 vintages. It was a non-recourse deal. We retained the juniorest pieces of equity, probably the bottom 10%. Those loans, as you can imagine, suffered pretty severe distress and we had eaten through most of our equity interest. And from a GAAP perspective, we're appearing to have more losses than actually we'd ultimately realize. So, by de-consolidating that trust, it gives a clearer picture of our balance sheet and our actual exposure to CRE. And at this point, our Holdco exposure to CRE is actually pretty small.

In addition to the de-consolidating that, which took about 900 million off of debt, we paid down another 400 million of debt during the quarter. And we've significantly paid down our debt over – since the end of 2008. Total balance sheet debt at the end of 2008 was probably close to $10 billion. At the Holdco, we're down to about $2.5 billion. So, you can see we've really rapidly delevered the balance sheet at the parent company. And, again, the point of the parent company is we're trying to run off the parent company assets prudently, pay-off the parent company debt and ultimately become pretty much a very clean holding company for our bank with the focus of growing the bank.

Credit is very much stabilized. In the quarter, all of our credit metrics improved from delinquencies to non-accruals to impaired loans to our charge-offs. So, we really have felt for some time that we're getting close to the crest of our credit problem wave. We've indicated that we feel that we're fully reserved for the legacy loan portfolio charge-offs. And ultimately, the metrics are starting to sort of back that situation up.

And one of the things we've seen is some liquidity in the market, both in terms of our ability to work out and liquidate our problem assets at amounts close to our marks. But also even in some of the performing assets, we've seen decent liquidity in our ability to turn our portfolio, certainly our parent portfolio that we're running off, into cash.

Turning now for a little more detail on CapitalSource Bank and focusing on third-quarter highlights, but the things we're kind of really highlighting at the bank. I mentioned asset originations. Again, the key focus of the bank is to grow assets. Right now, it has that 1.7 billion of cash. It has a cash and investment portfolio that's much larger than it needs to be, and that ultimately drives down returns because, obviously, on investments you're investing at 1% and your loans are coming in at 7.5 to 8%. You're much better off moving into loans. So, we're certainly focused on growing the balance sheet of the bank through loans.

One of the things we've worked to do is add some complimentary platforms to our historical long-term platforms. This year we've added three new asset generation platforms. In the beginning part of the year, we added an equipment finance team. It was a team that has 20 plus years of experience in working at banks and has generated large portfolios over time. So, we feel very good about that team led by Laird Boulden, and they hit the ground running in February and have generated a fair amount of assets already and are at a very good run rate.

In the spring, we purchased an SBA lender. It was a company that we knew well. It was a borrowing client of ours. It was a standalone independent SBA lender based in Maryland near our offices and have been originating SBA loans since that point in time.

And then finally, just recently we added a professional practice lending group, which lends to dental practices, typically much smaller loans for the acquisition of dental practices or doctor practices, veterinarian practices. And, again, has a long track record in banks of producing assets that perform very well from a credit perspective. So, one of the ways we've been able to generate the asset volume we have is to, again, focus on our core competencies, but also diversify the platform by adding some of these new areas that we're focused on.

Cost of funds, I mentioned we continue to see a decline in our cost of funds. Presentations I would have made six months ago, nine months ago, when we had gotten the cost of funds down to 1.5, 1.4, I would have said, we're probably done. We've seen it continue to come down. Obviously, with limited asset opportunities for banks, there is not as much deposit pressure as there has been, so pricing pressure is not nearly as high. And, obviously, low interest rates contribute to that too. So, we've continued to bring our cost of funds down.

The cost of deposits was 1.26% at the end of the third quarter, which, as you can see, significantly lower than it was just one year prior. And our new money is going out right around 1%, and in some cases even just slightly below that. So, it could come down a little further. We're getting to the point where the new money and the portfolio are close to the same, so there's not that much more room to run. But we have seen it continue to come down, and we expect it will stay down is the key for us.

On the credit side, again, stable is probably the way we'd indicate it at the bank. You can see, non-accrual loans and charge-offs both declined in the bank during the third quarter. And importantly, new non-accruals were only $11 million, so new situations coming into the pipeline of problems versus 105 million in the prior quarter. The prior quarter having been sort of influenced by a fairly large one loan but, still, seeing a significant reduction in the new situations is obviously an encouraging sign from a credit perspective. And then finally, we project credit to remain relatively stable going forward and provisioning will get back to sort of the normal run rate of new loans sort of normal seasoning within the portfolio.

And then finally, we're continuing to work to optimize our bank. The bank's obviously very attractive for us as it stands today with its cost of funds and our ability to fund our business in it. But we think we'll continue to add more opportunities for us and be able to further optimize that structure by converting the parent company to a holding company and converting the bank then from an industrial charter to a commercial loan charter.

Obviously, the part of the optimization I've talked about before, too, is to probably appropriately invest the bank's capital and liquidity in loans as opposed to investments. And then finally, we've sort of managed the deposit levels to optimize both the level of deposits without running them down too low, but keep cost of funds low. And we'll continue to manage the deposits and the liquidity in the investment portfolio to achieve appropriate margin.

This slide shows what we think are some of our key sort of strategic advantages or barriers to entry to our business. You can see, as I mentioned, again, we worked to provide businesses or financing

to small and mid-sized businesses. We think that requires a fair amount of industry expertise to get in and understand those businesses, and so we've developed some of those industry expertise within our platforms.

Going around clockwise to the right then, we source it using a Direct National Origination Team. And, again, versus some banks who tend to operate within their footprint, we can work with national borrowers. We cover a broader territory and, again, these teams have long track records in deep industry contacts. So, we think we see more opportunities. Because of those contacts and expertise, we get better credit outcomes. And we're – because we're doing it on a direct basis, we're less subject to adverse selection in terms of assets.

Going further down at the bottom, again, we maintain a bias towards our specialized industries, which, again, we think helps us get better credit outcomes, better risk return profiles, and allows us to develop very clear servicing standards for managing those specialized assets once they get into our portfolio. And we have 100 plus person loan servicing team that has, again, significant expertise and experience in servicing the type of loans we originate.

And then finally, as I mentioned, we've added more product lines to diversify the mix. So, we think we have a fairly unique structure in our ability to have generated this asset platform that can source all these various products across the nation and also service them, but having a regional depository to finance them.

This next slide shows you funded loan growth. I mentioned, we were over $400 million of loan growth, the last two quarters. You can see that's 60 to 80% higher than any of the previous eight quarters or seven quarters presented on this slide. So as I mentioned, a key strategic initiative for us this year was to get that origination engine ramping again, and we've certainly shown the ability to do that.

As it says at the bottom, the largest concentration of the third quarter is healthcare real estate. I think it's important to note that we're seeing this new volume in areas where we feel like we have traditionally experienced good credit outcomes. We're not doing the non-stabilized transitional real estate in any way that we use to do. We've certainly de-emphasized general cash flow lending, and we're focused on our specialty niches. And we view the new platforms we've added, SBA obviously with the guarantee component, equipment lending as having good credit outcomes. And that's been where the bulk of the originations have been, has been in healthcare, equipment and other much safer asset classes than say what we would have originated in the '06, '05, '07 timeframe.

This next slide, I think is a new slide we haven't presented before. But it shows you the bank's portfolio and highlights what I just said in terms of where we're focused on some of our new originations. You can see the bank now has 3.7 billion of assets. 1.7 billion those are still loans that they purchased or acquired from the parent company when the bank was founded, but 2 billion of that has been originated during the bank's lifecycle. So, they're originated by the bank with the bank's underwriting standards – underwriting standards that have been less blessed and approved by the regulators.

Looking at the slide itself and focusing maybe on that last column going from the bottom up, you can see the bottom row – and I apologize if it's a little small. If you want to turn to your slide, it's page 11, but the bottom row is the small business lending. And, again, we bought a portfolio with the business that came across, but we've continued to originate there. And then, the multi-family is sort of a traditional bank multi-family product that qualifies for a beneficial capital treatment. Just by saying that, you should know then the regulators view it as a fairly safe asset class. So, those are two new asset classes the bank has been focused on.

You can see fairly sizable in healthcare including real estate and asset base. And, again, if you look at our historical losses, those are two areas where we've performed very well. And that asset base

column – row includes this equipment finance business. So, those bottom four we view as very, very good credit outcome businesses that we've had either a long track record and done well or were ones that are sort of traditional bank or have very good credit characteristics and a level of high emphasis for us.

This number is our cash flow. Cash flow lending, again, I mentioned, we very much de-emphasize just sort of general cash flow lending. That business has gotten more competitive and still has some leverage points above which we're not ready to go. But focusing on our security area, our technology area. And then, some of that is a remnant of the bank when – in early 2009 when credit spreads had really widened, we were able to opportunistically participate in some bigger, better credits at decent spreads. So, really the cash flow right now is more a focus on the very specialty areas I indicated.

And then CRE/Other, we think there is actually some good opportunities in the market for commercial real estate loans. We think the valuations have come down quite a bit and are at sort of historic low levels, so we can do safe LTV loans with good asset cash flow coverage to loans. So, these are no longer the transitional ones we did in the past. These are cash flowing properties that, again, meet debt service coverage and leverage hurdles set out in our underwriting guidelines at the bank. And we think we have a competitive advantage against other banks. Other banks have so much exposure to CRE and are being asked by the regulators to reduce their exposure. We, because we have a more diversified balance sheet, have some capacity there to opportunistically play in the CRE space.

I mentioned margin expansion earlier. This shows the actual sort of significant margin expansion that occurred during 2009. It leveled off a little bit but has increased its improvement during the last quarter. The last quarter largely was a matter of fact – one of the things that had been holding down the margin expansion was the level of non-accrual loans at the bank. And we've been working to work those loans out and replace them with new good loans. So, yield expansion has been a factor of adding more of these loans. I think our yield year-to-date is about 7.5 to 7.65 for new loans we put on. So, getting as many of those new loans added to the balance sheet and moving off non-accruals has allowed us to increase yields on our loan portfolio. And as I mentioned, you can see the cost of funds has continued to gradually come down even below where I would have forecasted it being able to previously. We're about a 5% net interest or net finance margin in the third quarter.

I talked earlier about capital ratios. I mentioned they were fairly high. This slide clearly demonstrates that. The left-hand side is the sort of TCE to tangible assets ratio. And historically, 6% being considered a well capitalized, you can see we're north of 12 and approaching 13%, and those numbers have continued to go up. So, when you see the – versus the competitive set next to us, you can see how far we exceed them. And, therefore, how sort of very well capitalized. We are in some senses over capitalized, which is, again, the focus of growing the loan portfolio.

And on the right side is our risk-based capital ratio. We are held to a 15% minimum by our initial regulatory order. You can see 10% being viewed as generally a regulatory well capitalized level and we're north of 18. The bank's actually at its highest risk-based capital percentage that it's been since its founding. As it's returned to profitability, that obviously adds to the capital-base. We've made some – focusing on some of the multi-family SBA loans that have favorable capital treatment, certainty assists with that calculation also. So, the bank is extremely well capitalized, if I haven't made that point clear enough yet.

Also, we view that – we have a fairly low-cost operating model. You can see this is our expense and efficiency ratios within the bank. The expense ratio can be a little volatile. One of the odd structures we have, not being a holding company, is all the people that source our loans are in the parent. So, the bank pays a fee to the parent to source those loans. And so, in quarters where we have significant growth in the portfolio, the bank's expense ticks up for some period of time

because those are current expenses. So, you can see in the second quarter when we significantly increased originations, that's why the expense went up.

So, basically when we view our bank cost model, we view that we have significant growth potential without increasing the cost base much at all. We have a deposit network that has about $4.5 billion of deposits. Essentially the same deposit branches had $8.5 billion of deposits at their high point in their Fremont days. We have a capacity, obviously, within the general oversight executive. And we have capacity within our asset management teams to service more loans. This team, a little bit larger, but we used to service $10 billion plus of loan portfolio. So, we think we can significantly leverage the current operating expense model and continue to drive this percentage down as we go forward.

Credit trends, again, I would say stable to improving. You can see the comparisons of some of the three – third quarter metrics in the bank versus the second quarter. Loan-loss provision was up a little bit. I think that was driven largely by one loan that was already a problem but went more rapidly into foreclosure than we expected, but not something that was sort of outside of our expectations.

You can see the loan-losses come down as we've worked out some loans and charged off some loans. Got accruals down fairly significantly. Delinquencies, the 90-day delinquencies were up and that was just – again, I mentioned that one loan that was already a problem. But you can see impaired loans were down and charge offs were down. So, we view basically the bank credit metrics as, as I said, stable to improving. And, again, we've been working to work through some of the problem asset credits at the bank aggressively, so we expect to see those numbers to continue to come down.

Company Representative

Don, a quick question while you're on the slide, did you say all of the loan problems have been the legacy portfolio?

Donald F. Cole, Chief Financial Officer

At this point, that's been the case. I think the bank might have done one loan in late July right after it founded that it lost some money on, but basically it's had no other issues in the portfolio. The one exception, again, we bought this SBA pool at a discount, so some of those loans came in and they become mark impaired and delinquent. But other than that, the new originations have been very clean. So, essentially all the problems are in the purchased portfolio from the parent. Thank you for that question.

[Inaudible question]

Donald F. Cole, Chief Financial Officer

So, the question was how does this slide, which is slide 15, compare to the parent metrics. And I think there's a slide later that shows some of the consolidated metrics and if it not, there's certainly one in the appendix. The parent is all legacy. I would say basically the trend is the same, so the parent is also improving. The numbers on a percentage basis are higher, so the parent has a higher allowance, higher non-accrual percentages. So the absolute levels are a little bit worse at the parent, but the trend is the same, and actually perhaps improving even a little more rapidly. But

we can – I'll point some of that out when we get to consolidated credit. And, again, I think there's some additional slides in the appendix that show how those things have moved.

So this next slide just shows what we think have been the keys to the success of the bank over its first two, now two plus years. And, again, we think the bank has been extremely successful in many ways. It was a fresh start bank. I mean we founded our own new bank. We created our own new charter and just acquired the deposits from Fremont. So we didn't take a lot of their legacy problems with us. We did get the one A-participation, as we called it, but that's now paid off. So any assets, residual assets from its prior life are gone.

But as I mentioned before, we have very significant scale. We can grow this thing without tremendous expenses, and it's very highly capitalized and very liquid. We've developed this diverse and specialized national asset origination platform both what we had over the long-term and what we added recently. The bank has very loyal depositors. There's a slide that shows over 50% of the depositors go back to 2005 and prior. And we have very high, 90%, retention rates when these CDs come up for renewal. So the bank has a very loyal deposit base, which is based upon these community branches with a high-touch marketing strategy.

And I guess the key point is we have a very strong relationship at this point we feel with our regulators. We work very hard to cultivate that. The regulators have worked very hard. We're a little bit of unique animal for the reasons I said for the positive but that also means we're a unique animal for the regulators. But we've worked pretty hard to help them understand our loans. And I think they've done a great job of understanding that, and right now I think we have very strong relationships with both the FDIC and the California DFI.

And then finally, a last point here, a little bit of a badge of honor for us. We did this all without any government assistance. Other institutions have asked for it, have had to take it, have used that to survive. And, ultimately, for us it was more the company always ran at a fairly reasonable points of leverage, and by developing our own bank we kind of did this without any assistance from the government.

Turning to the parent company and focusing on the liquidity of the parent and some of the legacy portfolio issues. As this slide mentions, the key points are we're de-leveraging the balance sheet and the balance sheet continues to strengthen. I mentioned earlier some of the rapid pay down of parent company debt and this slide highlights that. You can see from a sort of taking away the debt that we originated during our rep period just for some of what were sort of the residential real estate assets and not the core business, going from the 6.5 billion to 2.5 billion over the course of about not quite two years is pretty rapid pay down of debt and significant de-leveraging of our balance sheet. And largely through prudent liquidity management, working through our portfolio, turning our portfolio into cash and using that cash to pay down debt.

You can see now our sort of recourse maturities are, at this point, for us very manageable. If I was showing you this slide two years ago, you'd have seen a very high $1 billion plus number in 2010. We've taken some pain but done what it takes to work through that. And now at this point we feel very comfortable with our ability to continue to liquidate the portfolio and meet all of our recourse debt maturities as well as letting our non-recourse debt pay off as the loans pay off.

Turning quickly to credit as I see I'm getting a little bit behind on my time – I want to leave a little time for questions – but turning quickly to some of the highlights on credit, this is a consolidated slide. So you can see our quarterly loan loss provision increased versus the second quarter level a little bit. But when you compare it to the quarters where we were averaging $220 million for the prior two years, it's obviously still at a significantly lower level. But, yet, we still have a very hefty 6% allowance to cover that legacy portfolio. So, again, we feel very strong about our reserve position relative to the legacy portfolio.

Non-performing loans has come down. You can see non-accrual loans were down by 338 million. A big chunk of that was related to this '06-A deconsolidation. But, importantly, even ex that, the number kept coming down. And you can see still a large portion of those are current.

Charge-offs came down significantly from the second quarter level, down 35%. Charge-offs – because we have such a high allowance, we do expect to continue to have charge-offs that are elevated. We have the allowance there to cover those losses, but that's what we would expect them to be through 2011. But, again, we mentioned that they are very well reserved for. Finally, we've had good liquidity in resolving some of these loans and resolving them at what we feel are certainly attractive marks relative to our book value.

This one is one that shows that some of the metrics that have moved non-accruals, delinquent loans, impaired loans quarter-over-quarter. And you can see, on a consolidated basis, they've continued to – they came down significantly. Again, a fair amount of that was the '06-A deconsolidation, but even but for that these numbers would have improved.

Turning to focus on what we think are our 2010 accomplishments year to-date. Obviously, one of our big strategic initiatives and something we talked about late last year and certainly our year-end call was to return to profitability this year. And we did that in the second quarter and with the third quarter achieved two consecutive quarters of consolidated profitability. And we sort of envision that as the new normal. We think our credit has stabilized to the point where provisions won't get in the way of the company continuing to be profitable.

Another key strategic initiative was to grow originations and grow originations in the bank. And as the next section shows you, we've closed approximately 1.5 billion in new loan commitments and funded 1.1 billion of those at very attractive yields. The 7.65 yield is above what we would have targeted at the beginning of the year.

Margin expansion, I mentioned, it's an improvement of 100 basis points from the prior year quarter, third quarter 2009, which is, again, based upon adding new loans, reducing non-performers and moving down the cost of deposits. And we've worked to grow the bank to be larger than the parent. We think that's helpful both in our sort of bank holding company process but also to let people understand, again that we really are moving towards becoming a bank or a pure bank as we like to say and less of our sort of finance company roots.

And then, the last bullet point here, now that bank loans are at 3.7 billion, which is greater than the parent. Significantly now, the parent is under $3 billion. So it really is becoming more and more just the bank's story.

I mentioned we've continued to delever. We've reduced 2.7 billion of debt, 1.8 billion of securitized debt, 470 million of our credit facilities and about 460 million from selling our healthcare net lease assets at the beginning of the year, which seems like a long time ago. But, again, it was another way to sort of simplify and streamline our business.

We very much expanded the lending platform by adding some of these new business lines that we're very excited about. We've continued to manage credit and liquidity very well. The parent company cash at the end of the third quarter was $285 million. That is net of another 110 million we could draw on our secured revolver at that point in time. So we've essentially managed to increase and improve the parent company liquidity. At the same time, where almost all of our collections both interest and principal on our loans have been used to pay debt. So you can see the portfolio itself has generated plenty of cash, and the business has generated plenty of cash for us to not be at all concerned about liquidity.

And at this point, so much of our debt is paid down to almost zero, many of those collections that have been previously reducing debt will be available for the parent to continue to grow this number

of cash and have it available for some of these other recourse debt maturities, both converts, high yields that come up in the next several years.

And finally, again, we're becoming a much more simpler story. As I mentioned, the bank is becoming the dominant theme on the bank go forward and its ability to continue to originate loans in this marketplace at attractive spreads and to fund those with a very stable and attractive cost deposit platform.

So finally to wrap up, just a point I will leave you is that sort of thesis about CapitalSource, what is the – what's in it for the investor to invest in CapitalSource. I mentioned we have a strong long-term business model in place now. We have this national origination platform, which we view as setting us aside from others. Our ability to generate loans in this market indicates that. We have a bank and a parent that both have extremely high capital ratios. The parent capital ratios are north of 30% through our de-leveraging. So we have plenty of capital to grow our business. And we forecast that we'll be growing our pre-provision earnings over the next two to three years as CapitalSource Bank finally fully invests itself by exchanging its investments in cash for loans.

Credit has very much stabilized. The last two quarters, our provision levels and what's happened in stabilization in the new non-performers and certainty the reduction in the overall levels have given us even more confidence than what we thought we had before, which was essentially a fully reserved balance sheet and the ability to return to profitability as we've indicated.

Sustained profitability. Again, the last two quarters indicate the level of profitability we achieved and we again think that will continue into 2011 and beyond. And this new loan production level of 1.4 to 1.5 billion only enhances that as the bank can grow its high-yielding loan assets.

And finally our liquidity profile and our book value are all improving. As I showed you, the recourse debt maturities, none exist till July 2011. We view them as very manageable, that there's no real liquidity question or concern for us. And then finally, we have a valuation allowance on our deferred tax asset that will over time reverse itself, and when it reverses it will add to our ultimate book value. So we think book value will continue to improve.

With that I think I probably have three or four minutes, two minutes? Probably take a couple of questions. Sure.

QUESTION AND ANSWER SECTION

<Q>: [inaudible] performing loans that are in your non-performers, are those restructured loans? And if they are, how long have they been there in the portfolio?

<A – Donald Cole>: So the question was we have a lot of performing loans in our non-performers. And I guess in some ways it depends on how you define performers and non-performers. One of the things we have in the non-accrual bucket is a lot of them are current. And that just comes from the fact that we are sort of managing our credit in such a way that we're looking out – we sort of have a very high touch active management of the loans. So we see problems coming before things get delinquent.

In addition, when you say performers, there are certain loans that we have restructured that will be listed in the impaired loan category for up to a year if they've gone through a troubled debt restructuring. So that's some portion of that. But, ultimately, a significant portion of them are still current, although we view the problems coming in advance and we'll sort of take the mark early. Sure. Another question?

Donald F. Cole, Chief Financial Officer

All right, well, again, thank you very much. It's a nice, warm crowd, I guess. Although, maybe it's a bit of a small group. But I certainly appreciate everyone taking the time to listen to our story. And, again, thank FBR for hosting us.