

2007  
March



# The Correspondent

## LETTER FROM THE PRESIDENT



Welcome to *The Correspondent*, Marshall BankFirst's corporate newsletter providing you with the latest happenings in and around Marshall BankFirst Corporate and its affiliates. I am very excited to introduce you to this newsletter as I know the information we provide will be both informative and educational to you and your colleagues.

Marshall BankFirst recently closed its books on one of its most successful years ever – by any measure. We are very proud of our accomplishments and are thankful to our business clients who have put their trust in us.

We are very excited about the prospects for 2007. This year will undoubtedly bring tremendous opportunities for business as well as new challenges. Some of these challenges are already evident, including a highly dynamic real estate market and new regulatory guidelines for lenders nationwide. At Marshall BankFirst, we are keeping our focus on these and other issues facing our industry today.

As a significant lender in Commercial Real Estate (CRE), we are well aware of the latest CRE lending guidelines presented by the Federal Reserve Board. While there is no question these guidelines will have some impact on CRE lending this year and beyond, we are confident they will ultimately make lending programs more successful for community banks nationwide. Jim Clifford, Executive Vice President and Chief Credit Officer of BankFirst, recently provided his insight on how these guidelines will have an impact on lending. To learn more, please read "How Community Banks Can Survive the New CRE Lending Guidelines."

In addition to the new CRE lending guidelines, we have been paying particular attention to the regional and local markets in which we lend. While the current state of nationwide lending markets is continually fluctuating, we have seen a significant shift in the real estate market of Southeast Florida. A recent market analysis has been completed by Eric Daly, Vice President of Credit/Appraisal Review at BankFirst, providing his insight into the financial outlook of this lending market.

Along with these market fluctuations and significant lending regulations, many of our current clients are aware of the recent accounting conversion we have undergone at Marshall BankFirst. We are happy to report that we are at the end of our transition process. We are confident this new accounting platform will produce positive results and make the loan servicing process even more streamlined than before. To share a bit more insight on the accounting conversion as well as introduce some modifications that will help participants in the future, please read our loan operations update provided by Tom Grady, Executive Vice President of Marketing and Distribution.

We hope you enjoy this inaugural issue of *The Correspondent*. We look forward to continuing our relationship with our clients and know that 2007 will be an interesting and exciting year for all of us.

Scott H. Anderson

President and Chief Operating Officer  
Marshall BankFirst Corporate

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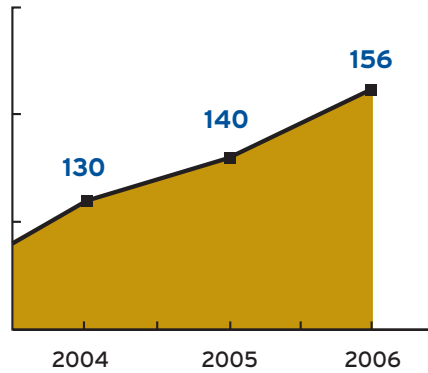
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**INSTITUTIONAL SALES:**

> New Bank Clients



**LOAN PORTFOLIO (through 12/31/06):**

- > Current Outstanding Balance \$2.258 billion
- > Total Portfolio Commitment Amount \$3.307 billion
- > Active Participants 764
- > Active Participations 3,525
- > Average Loan Term 26 months
- > Average Effective Yield 8.65%

**RESIDENTIAL MORTGAGE:**

- > Number of Financed Units 1,470
- > Average Loan Size \$220,000
- > Dollar Amount of Originated Loans \$314 million

**STORED VALUE SOLUTIONS:**

- > Number of Active Accounts 2,510,144
- > Current Spend Volume \$1,718,812,955
- > Outstanding Balance \$389,488,750

**Marshall BankFirst Transaction Summary**

In 2006, through its subsidiary BankFirst, Marshall BankFirst originated and closed more than \$1.6 billion in transactions nationwide in the areas of Commercial Real Estate, Commercial and Industrial Financing, Native American Gaming Finance, Senior Housing Finance and Alternative Energy Finance.

To see a sample of our 2006 transactions [click here](#).

To learn more about our current offerings, please visit [www.lanparts.com](http://www.lanparts.com).

## MARSHALL BANKFIRST REMAINS A LEADING COMMERCIAL LENDER

Through 2006, Marshall BankFirst reported continued success in developing one of the nation's largest and most diverse commercial lending portfolios through its subsidiary, BankFirst.

Recently, Marshall BankFirst was recognized for its continued accomplishments by the *Minneapolis/St. Paul Business Journal*. Every year, the *Minneapolis/St. Paul Business Journal* creates the "BankFirst Lists," an annual publication containing categorized lists of exceptional companies in and around the Minneapolis/St. Paul area. Lists compiled within this publication are categorized by industry and contain companies known as the "Who's Who" of businesses.

Marshall BankFirst was recently ranked #2 in the Top 25 Commercial Mortgage Companies List within the BankFirst Lists publication.

This list consisted of top commercial mortgage companies within the Minneapolis/St. Paul area and results of the list were based on the dollar volume of loans closed nationwide in 2005. ([Click here to see the Top 25 Commercial Mortgage Companies list.](#))

In addition to being ranked within the *Minneapolis/St. Paul Business Journal* BankFirst Lists, Marshall BankFirst was also ranked #16 in the 2006 Top 25 Direct Lenders list within *Midwest Real Estate News'* "Best of the Best" publication. The "Best of the Best" publication is compiled annually and the Top Direct Lenders List was based on the total dollar amount of projects financed through 2005.

## NEW FACES AT MARSHALL BANKFIRST CORP.



### Scott Fjellman

Chief Financial Officer | Marshall BankFirst Corp. | [BankFirst scott.fjellman@marshallbankfirst.com](mailto:scott.fjellman@marshallbankfirst.com)

Marshall BankFirst Corp. recently appointed Scott Fjellman as Chief Financial Officer. As Chief Financial Officer, Fjellman is responsible for managing corporate performance, accounting, financial administration and banking operations.

Prior to his position at Marshall BankFirst, Fjellman served as Senior Vice President and Treasurer of Metris Companies, Inc. where he was responsible for all treasury functions, including cash management, corporate funding, structured finance initiatives, insurance and investment relations.



### Tim Ring

Senior Vice President, Loan Closing & Corporate Counsel  
[tim.ring@marshallbankfirst.com](mailto:tim.ring@marshallbankfirst.com)

Tim Ring is Senior Vice President in the Loan Closing division of BankFirst. He is responsible for overseeing the organization's loan and document creation and providing legal guidance regarding issues pertaining to loan structure, documentation and general legal advice.

Prior to his position with Marshall BankFirst Corp., Ring worked as Associate Counsel of the Institutional Channel of GMAC Financial Services where he was responsible for negotiating and documenting mortgage loan purchase agreements and warehouse lending facilities for billion/hundred million dollar facilities.



### Michael Hayes

Vice President, Loan Closing | BankFirst  
[michael.hayes@marshallbankfirst.com](mailto:michael.hayes@marshallbankfirst.com)

Marshall BankFirst recently appointed Michael Hayes as Vice President of Loan Closing. As Vice President, Hayes is responsible for all areas related to the organization's special asset transactions.

Hayes comes to Marshall BankFirst Corp. with more than 17 years of legal experience, most recently working as Attorney and Vice President of Special Credits with JP Morgan Chase Bank, N.A. At Chase, he was responsible for advising workout officers on legal issues related to secured transactions, bankruptcy, litigation and lender liability as well as negotiating and restructuring loans with customers and their representatives.

Prior to his work at JP Morgan Chase Bank, Hayes worked as an Associate Attorney for Schwartz, Cooper, Greenberger and Krauss where he conducted legal research, drafted memoranda and prepared motions and briefs for bankruptcy cases representing both secured parties and debtors in bankruptcy and state court proceedings.

## MARSHALL BANKFIRST LOAN OPERATIONS UPDATE



**Tom Grady, Executive Vice President and Director of Marketing and Distribution**

As many of our clients know, we recently converted our loan participations platform. We experienced some unexpected issues concerning our conversion which, unfortunately, impacted our ability to process construction draws and distribute loan payments in a timely manner. First and foremost, we want all of our clients to know how much we appreciate your patience during this time. We sincerely regret any inconvenience this issue has caused you or your institution.

I am pleased to report that a vast majority of our issues have been completely resolved. We have seen a significant decrease in questions coming from our participants regarding payments and we are eager to get on with the business of lending.

To that end, we recently communicated a few changes that will help our bank participants. They include:

> **Amended Draw Request Process:** Effective immediately, if you are in a construction loan you will receive two separate draw requests – a request for hard and/or soft costs and a request for interest. In the past, the longer timeline for this verification caused a delay in sending the interest payment to you. The new process will ensure that the monthly interest payments are made in a timely manner and all work for the additional time we may need to complete the detailed work on hard and soft cost verification.

> **Unfunded Advance Adjustments:** In the near future, you will notice a change in the transaction description of undrawn Loan-Link as it relates to draws funded after the requested funding date. Moving forward, if the requested funds are not remitted by 2:00 pm CST and we elect to advance funds on your behalf, the transaction will appear on Loan-Link as an “Unfunded Advance”. When the funds are remitted as requested, an interest adjustment will be applied for the late remittance of funds. The interest adjustment will be calculated at the rate in effect in the credit agreement for the number of days between the unfunded advance and the date funds are received by us.

> **Payments and Principal Reductions:** The method of payment of unscheduled principal reductions and loan payments may differ from what you have experienced in the past. Funds collected from a borrower on your behalf will generally be paid to you via ACH. This applies to regularly scheduled payments on all loans as well as unscheduled principal reductions and loan payments.

> **Account Verifications:** We are currently in the process of updating our records for all of our bank participants. To ensure that we have the most up-to-date information regarding your ACH and wire instructions, a member of our organization will be in contact with your institution.

If you have any further questions regarding these changes, please contact your Marshall BankFirst Sales Representative at 1.800.328.6122.

Tom Grady is Executive Vice President and Director of Marketing and Distribution for Marshall BankFirst Corp. He is responsible for the firm's loan distribution, marketing strategy, branding, client relations, advertising and public relations. [t.m.grady@marshallbankfirst.com](mailto:t.m.grady@marshallbankfirst.com)

### MBA-CREF CONVENTION

Sean Sjodin (left), Assistant Vice President of Marshall BankFirst's Commercial Real Estate division, and Bill Snyders (right), Senior Vice President of Marshall BankFirst's Commercial Real Estate division were among several employees sharing in the success of the MBA-CREF convention recently held in San Diego, California. This convention is one of the most attended conferences nationwide and is hosted for commercial and multifamily real estate finance professionals who possess a working knowledge of the real estate and mortgage industries. At the convention, Marshall BankFirst unveiled their new booth, which showcased their expertise in nationwide commercial lending as well as some of the diverse transactions financed through 2006.



## Industry Perspectives&gt;&gt;&gt;

## HOW COMMUNITY BANKS CAN SURVIVE THE NEW CRE GUIDELINES



**Jim Clifford, Executive Vice President and Chief Credit Officer**

Federal regulators recently published new guidelines for lenders with significant concentrations in Commercial Real Estate (CRE). Banking regulators first drafted the proposed CRE lending guidelines in January 2006, resulting in more than 4,000 comments from community banks, state organizations and trade groups. Clearly, CRE lending is a hot topic for community bankers and they let their feelings be known to the regulatory agencies as to how they felt about the proposed guidelines. The new published guidelines made several amendments from the initial proposal which, from a community bank's standpoint, made the new requirements more palatable.

Strong feelings exist on both sides of the aisle. Federal agencies are hoping to avoid a significant banking crisis like the S&L debacle of the late 1980s. Community banks believe CRE lending is the only way to compete against the bigger regional and super-regional banks that can afford to cut pricing and fees to win business. With so much at stake, a closer review of the guidelines is warranted.

Recently, The Federal Reserve Bank of San Francisco (FRBSF) published an Economic Letter examining the rise in CRE lending concentration at commercial banks and the recent performance of CRE loans. The FRBSF's analysis shows that "while concentration in CRE lending has increased substantially at many banks, for these banks with CRE concentrations, the subsequent performance of their CRE loans portfolio, as well as their overall loan portfolio, has not been notably different from other banks." And that, "in balance what has been a relatively benign economic environment, banks focusing on CRE lending have been as effective as other banks in managing their lending risks."

To read this article, please visit the FRBSF website at <http://www.frbsf.org/publications/economicletters/letter/2007/el2007-01.html>.

In my opinion, it is important for community bankers to understand that the new guidelines will not dramatically change the landscape of CRE lending. I believe the guidelines were not established to restrict CRE lending activity in any way. To the contrary, the guidelines are a testament to the viability of CRE lending – primarily for the last 10 years. The competition for good, quality assets will continue and in the end, the best lenders will still win. Moreover, many community banks are already adhering to the new guidelines. Although they do not establish specific limits on CRE lending, the new guidelines do establish certain areas that will require additional regulatory examination based on CRE portfolio size and growth. These specific requirements are summarized into the following eight areas.

#### 1. Board and Management Oversight

The new guidelines remind covered institutions that their Board of Directors has the ultimate responsibility for the level of risk assumed by the institution. Institutions with high levels of CRE exposure should address the rationale for their CRE exposure levels in relation to their overall growth objectives in their strategic plans. Boards should establish written policy guidelines which incorporate overall CRE exposure limits and provide oversight of the procedures and controls management has in place to adhere to the institution's policies and strategies. In addition, Boards should review and approve CRE risk exposure limits and appropriate sub-limits to conform to the institution's strategy changes.

#### 2. Portfolio Management and CRE Concentration Assessments

Institutions are expected to perform periodic risk assessments to identify CRE concentrations. This means that portfolios need to be stratified to identify segments "that have common risk characteristics or sensitivities to economic, financial or business developments." Institutions are encouraged under the new guidelines to assess their own concentrations limits based on risk characteristics, the quality of risk management processes and capital levels. They are further instructed to establish

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The new published guidelines made several amendments from the initial proposal which, from a community bank's standpoint, made the new requirements more palatable.

## Industry Perspectives>>>

Banks which are subject to the published guidance will need to demonstrate a clear understanding of the market dynamics of the areas in which they make CRE loans.

internal concentration limits and report these concentrations to management and their Boards of Directors on a periodic basis.

### 3. Management Information Systems

The new guidelines emphasize the need for strong management information systems that effectively manage an institution's portfolio. There is an acknowledgment that the " sophistication of MIS will necessarily vary with the size and complexity of the CRE portfolio, and the level and nature of concentration risk." MIS systems should be adequate to identify strata within an institution's loan portfolio and be able to identify and aggregate trends in the portfolio's risk including risk rating migrations.

### 4. Market Analysis

Banks which are subject to the published guidance will need to demonstrate a clear understanding of the market dynamics of the areas in which they make CRE loans. This must include a thorough review of the current conditions in the areas in which they concentrate their real estate lending. They will also be expected to make policy and/or underwriting guideline adjustments based on their market assessment results and conclusions.

### 5. Credit Underwriting Standards

The new guidance emphasizes that institutions with CRE concentrations should have "clear and measurable underwriting standards" that take into consideration both internal and external factors such as market position, historical experience, staff capabilities and technological resources. CRE lending policies need to address the following standards:

- Maximum loan amount by type of property
- Loan terms
- Pricing structures
- Collateral valuation
- LTV limits by property type
- Requirements for feasibility studies and sensitivity analysis/stress testing
- Minimum requirements for initial investment and maintenance of hard equity by the borrower
- Minimum standards for borrower net worth, property cash flow and debt service coverage

In addition, institutions' lending policies should permit exceptions to underwriting standards only on a limited basis. When exceptions are permitted, the exception should be clearly documented. Ratified for the exception should be clearly stated and reported regularly in aggregate to their Boards of Directors ("detailing the number, nature, justifications and trends for exceptions"). Loans in excess of supervisory LTV limits should be monitored and findings should be reported to their Boards at least quarterly. Institutions will also be required to have appropriate controls in place to ensure that the minimum borrower equity amounts are maintained throughout the term of the loan and procedures are in place governing loan disbursements during construction.

### 6. Portfolio Stress Testing and Sensitivity Analysis

Banks with high concentrations of CRE are expected to perform sensitivity analyses on their loan portfolios to expose segments of the portfolio that may be particularly exposed to market risk, general economic risk or loan purpose risk. This means banks will be expected to utilize the segmentation analysis outlined above to perform portfolio shock testing on specific segments of their portfolio to gauge the economic risk to the bank. This includes performing rate shocks to various segments of their portfolio as well as increasing the likelihood of loss to various segments of their portfolio to measure the potential impact to both earnings and capital at risk. The final guidance was specifically revised after a large number of commenters cited the potential costs of installing complex economic modeling into their banks. The final guidelines clearly delegate the responsibility for the extent of this modeling to bank management and Boards of Directors to establish "appropriate" tests for their institutions.

### 7. Credit Risk Review Function

The new guidance emphasizes the need for a "strong credit risk review function" to self-assess emerging risk. A sound, accurate and timely risk-rating system provides the foundation for this review function to assess credit quality and identify problem loans. Risk ratings should be reviewed regularly for appropriateness.

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## Industry Perspectives>>>

### 8. Assessment of Capital Adequacy

The wording in this section of the new guidelines has been significantly changed from the original language which had a dramatic tone towards the need for significantly higher levels of capital for institutions with large amounts of CRE exposure. The new language reminds institutions with CRE concentrations that "their capital levels be commensurate with the risk profile of their CRE portfolio." The agencies will consider a wide range of factors in assessing the adequacy of an institution's capital including "inherent risk in the CRE portfolio as well as management expertise, historical performance, underwriting standards, risk management practices, market conditions and any loan loss reserves allocated for CRE concentration risk."

In summary, community banks should not be concerned over the new guidelines. Yes, they place new requirements on how we conduct ourselves in our lending markets. Still, the best banks will continue to thrive as they will demonstrate that they have reasonable levels of expertise in CRE lending with proven knowledge in the markets in which they are most prevalent. The new guidelines are an excellent opportunity to remind the banking community that strong risk management practices, shrewd underwriting standards and adequate levels of capital are essential elements of a successful lending program, chiefly for lenders with a substantial CRE lending focus.

Jim Clifford is Executive Vice President and Chief Credit Officer of Marshall BankFirst Corp. and BankFirst. He is responsible for managing the bank's Credit and Risk Management groups. jim.clifford@marshallbankfirst.com

## LOAN-LINK PROVIDES CLIENTS WITH ADVANCED LOAN SERVICING CAPABILITIES

At Marshall BankFirst our clients always come first – no exceptions. We are continuously working in ways to provide limitless access to programs and services that help our clients complete processes they could not otherwise finalize on their own.

Marshall BankFirst recently made significant enhancements to Loan-Link, our secure, online loan servicing platform that provides our bank clients with up-to-date information and documentation related to their specific participant loans.

In addition to providing updated information on participant amounts, current balances and total earnings, the recent Loan-Link enhancements made the following items available to all loan participants:

- > Loan-specific rate change history;
- > Capabilities of exporting Loan-Link data into Microsoft Excel;
- > Current loan balance information; and
- > Additional loan data fields providing supplemental information including maturity date, current interest rate, next payment due date as well as principal and interest paid year-to-date.

By adding these enhancements to the already existing components of Loan-Link, our participants have access to every available document related to their loans.

Along with providing superior loan servicing capabilities, Loan-Link utilizes the most efficient technology available enabling participants to enhance their productivity and time management.

If you would like more information regarding these recent Loan-Link enhancements or have any additional comments or suggestions for future enhancements, please contact Marshall BankFirst's Portfolio Management Team at 1.866.373.MBFC (6232).

At Marshall BankFirst  
our clients always come  
first — no exceptions.

Regional Market Analysis>>>

SOUTHEAST FLORIDA MARKET ANALYSIS



**Eric Daly, Vice President,  
Credit/Appraisal Review |  
BankFirst**

In response to the rapidly changing and dynamic real estate market we find ourselves in, BankFirst has initiated a market research project. The purpose of this project is to better understand the markets in which we do business as well as to identify potential new markets. BankFirst will collect and analyze market data and rely upon local and national data services including Moody's, Metr Study and C Star. In addition, we take advantage of our extensive contacts in these markets including brokers, appraisers, bankers, developers and investors.

Based upon these types of research and the knowledge of our employees, we make conclusions regarding current market conditions and projections about the future of each market. By updating and maintaining our research and analysis we keep our finger on the pulse of the local markets where we do business and find new markets in which to expand our portfolio.

In an effort to get a better understanding of marketing dynamics, BankFirst has made the decision to share this data and analysis with our clients. Our first market analysis covers the southeast Florida market, including Miami, Ft. Lauderdale and Miami Beach. Future studies may include Arizona, southern and northern California, Texas, greater Florida and any other markets on an as-needed basis.

**Market's Analysis**

**MIAMI**

The ongoing housing correction has acted as a drag on construction, causing construction employment to stagnate since the beginning of 2006. The impact of falling home use prices on the real economy is, however, not as severe as one might think. Remarkably, the financial industry remains one of the few unquestionable positives for the Miami economy.

**Housing**

Thus far, Miami's housing market has held up

better than the markets in the rest of south Florida. The downturn currently seen in Miami's housing market is, in part, the result of a spill over from neighboring markets rather than due to factors specific to the Miami metropolitan division.

According to data from the Florida Association of Realtors, the median price for existing single-family homes fell by 2.3% in October compared to the previous month. Prices are now approximately 7% lower than at their peak in March; most of the price decline has taken place in the last three months. Sales activity dropped by nearly 30% from September to October, pushing them right back to the low levels seen last winter, i.e., about half of the recorded levels seen in the summer of 2005.

It will likely take longer for the housing correction to work itself out in Miami than in other Florida metropolitan areas, as the metropolitan division's economic and demographic fundamentals are weaker than the rest of the state.

**Tourism**

Since most of Florida's visitors are domestic visitors, the likely impact is that travel and tourism will continue to show lackluster growth going into 2007, as the increase in the number of international visitors will be too small to make up for the slowdown in domestic tourism.

**Conclusion**

Miami's near-term outlook is for a continued moderation in growth, due to further job losses in construction and housing-related industries. The poor demographics will also hamper the long-term growth prospects of the metropolitan division. Growth will, nonetheless, exceed or match the U.S. pace through out the forecast horizon.

**WEST PALM BEACH**

West Palm Beach's economy has slowed down from its ferocious expansion in 2005 but still displays very robust growth. Job growth is more than twice as high as the U.S. average. That said, West Palm Beach has been hit harder by the housing market decline than the rest of south Florida and construction employment is

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By updating and maintaining our research and analysis we keep our finger on the pulse of the local markets where we do business and find new markets in which to expand our portfolio.

## Regional Market Analysis&gt;&gt;&gt;

now beginning to give way. This is likely the start of a continuing spate of losses in construction employment. In September, the unemployment rate was unchanged at 3.4%, which is slightly higher than the average for the earlier months in 2006, but not high enough to establish an upward trend. The near-term future of construction is bleak due to the depressed state of the housing market. On the other hand, professional/business services will expand at a robust pace into 2007. The industry now carries almost twice the weight of the leisure/hospitality industry, and this shift away from a tourism-based economy to an economy driven by professional services and technology will continue over the foreseeable future.

**Housing**

West Palm Beach has been hit harder by the housing bust than its neighboring southern Florida metropolitan divisions. According to data from the Florida Association of Realtors, the median sales price for existing single-family homes dropped by nearly 10% over the three months ended September, to a level more than 12% below the peak in late 2005. That the median price stayed unchanged from September to October was good news, possibly heralding improved price stability. Also pointing in that direction is an increase in transaction volumes of 9%. Against the backdrop of stable sales over several preceding months, this suggests that the worst may be over as far as market activity goes. However, given the typical lag between sales and prices, further price declines are to be expected in the months ahead.

Anecdotal evidence indicates that foreigners have gone up more in West Palm Beach than elsewhere. Some of this could be the result of speculative buying if investors have been unable to sell their stock at all.

**Conclusion**

Despite the weakness in the housing market, West Palm Beach will remain an above-average performer over the forecast horizon. A thriving financial industry and professional/business services provide the backbone of the metropolitan's service expansion, with education/health services and leisure/hospitality providing further reinforcement. The metropolitan area's economic and demographic fundamentals are very strong and this strength will outweigh the

drawdown from the housing sector both in the short and in the longer run.

**FT. LAUDERDALE**

Housing has been occupying center stage for some time, even more so in Florida than in the nation at large. It is somewhat surprising, therefore, to find that the stagnation in the Ft. Lauderdale economy does not appear to be closely tied to the deterioration in its housing market. Construction employment peaked in September and declined only marginally in October. The financial industry also shows surprising resiliency considering the conditions in the housing markets.

The stagnation in Ft. Lauderdale's overall employment is instead attributable to the removal of traditional support pillars for job growth, education/health and professional/business services industries that are faltering. We expect this stagnation to be temporary, with growth resuming early in 2007.

**Housing**

Ft. Lauderdale's housing market has deteriorated significantly over the past several months. According to data from the Florida Association of Realtors, sales of existing single-family homes took another hit in October, dropping by 20% compared to the previous month. Sales activity is now only half of what it was in the spring and summer of 2005. The drop in market activity has impacted prices as well. The median price for an existing single-family home dropped by 5.6% between September and October, and is now 8.1% below the peak reached in July. The price drop will likely continue for another few months before the metropolitan's strong fundamentals gain the upper hand in stabilizing the market.

**Conclusion**

A downturn in Ft. Lauderdale's housing market should hit the economy directly through a reduced construction and indirectly through a negative wealth effect on consumer spending. Ft. Lauderdale's economic and demographic fundamentals all point in the direction toward resumed growth in 2007 and a robust longer-term growth trend.

**BankFirst Analysis**

In a September Market Update Conference, (continued)

## Regional Market Analysis>>>

Some local industry veterans stated that given the current slowdown, construction costs are starting to come down to more reasonable prices and general contractors are lowering bids and shortening construction time frames.

data service provider Metr Study stated that while the market is “correcting” in south Florida the two key components that the slowdown have been the fall-out of speculators and affordability, the latter especially in West Palm Beach. Metr Study stated that projects with more affordable housing using continued to do well.

The number of multifamily permits issued in Miami was down by 25% in 2006 compared to 2005 and existing home prices rose slightly. In West Palm Beach, multifamily housing permits were down slightly for the same time period, as was the average existing home price. These figures support the fact that while there is indeed a “slowdown” or “market correction” taking place in the south Florida market, compared to the national averages it is minor and is indeed a “correction” and not a “crash”.

On December 27, the Commerce Department reported a national level that sales of new houses rose 3.4 percent over the prior month, while builders’ unsold inventories dropped to their lowest level since last February. All of which suggests that the 18-month market correction that followed the four-year housing boom has just about run its course.

Many of the industry professionals that we interviewed indicated that the reason for the slowdown was the impact of “investor buyers” or “speculators” which created a “false market.” These “speculators” have all but disappeared from the market which is contributing to the longer absorption rates and the slowdown. However, most experts agree that this return to a “normal” buyer-user market was needed and after the initial downturn the market will return to a “stable” market in 2007 and beyond.

It was also noted that oceanfront projects continued to do better than interior, land-locked condo projects. Discussions with local area brokers and appraisers appear to support this with several stating that although all condo projects have been affected, the oceanfront projects appear to be “weathering the storm” better than inland units.

Experts agree that much of the slowdown is at the high end of the market and that more affordable units are selling well. Lawrence Yun, a senior economist at the National Association of Realtors, expects demand from baby-

boomers to strengthen as more of them approach retirement age over the next five to 10 years.

Some local industry veterans stated that given the current slowdown, construction costs are starting to come down to more reasonable prices and general contractors are lowering bids and shortening construction timeframes.

### BankFirst Conclusions

Based upon market data gathered from various sources including Moody’s and discussions with local area brokers, appraisers and developers, it is evident that the south Florida market is currently experiencing a housing correction fueled by the end of speculators in the market. However, the data suggests that this market will continue to outperform the national averages and remains a strong market in the future due to a strong economy, strong tourism particularly from Europe and Latin America, and continued immigration to south Florida including an increase from baby boomers.

It is BankFirst’s opinion that while caution is recommended when making underwriting decisions, south Florida is still a strong market with good long-term potential.

Sources: Moody’s November 2006 Market Reports; Metr Study; C Star; National Association of Realtors; Yahoo! News; Allan Friedman, MAI, Friedman & Company, Miami, FL; Frank Hornstein, MAI, AppraisalFirst Inc., Miami, FL; Michael Martin, MAI, Diversified Real Estate Consultants, Ft. Lauderdale, FL; Heraldtribune.com Florida.

Eric Daly is Vice President of Credit/Appraisal Review for BankFirst. He is responsible for the direct appraisal review and market research functions for the organization. [eric.daly@marshallbankfirst.com](mailto:eric.daly@marshallbankfirst.com)



In the coming months,  
 a main focus of  
 Marshall BankFirst  
 will be to ensure  
 that our charitable  
 contributions have  
 a positive impact  
 on our communities  
 as well as share  
 information on  
 opportunities to get  
 more involved.

## MARSHALL BANKFIRST CONTINUES COMMITMENT OF BEING AN OUTSTANDING CORPORATE CITIZEN

Every year, Marshall BankFirst makes a commitment to become an outstanding corporate citizen in the community. Through sponsorship, volunteer opportunities and valuable contributions, we have dedicated ourselves to building strong and vibrant communities, improving quality of life and making a positive difference where we live as well as where we work. Throughout the year, employees of Marshall BankFirst have continuously pulled together and realized how much of a difference can be made by jointly contributing to worthy causes.

Throughout 2006, Marshall BankFirst became significantly involved with several non-profit organizations within the community. Some of these organizations include:

- Minneapolis/St. Paul Children's Theatre
- Minneapolis Heart Institute
- Special Olympics
- Minneapolis Pediatrics Foundation
- Juvenile Diabetes Research Foundation
- Greater Metropolitan Housing Council

In addition to these organizations, many Marshall BankFirst employees expressed their commitment and gratitude to the Twin Cities Ronald McDonald House/Upper Midwest division. In 2006, Scott Anderson, President and Chief Operating Officer of Marshall BankFirst, became President-Elect of the Board of Directors for the Twin Cities Ronald McDonald House. As a dedicated member of the Board, Anderson is responsible for setting strategic vision for the House and providing financial oversight. "Being directly involved with the Ronald McDonald House truly makes me believe how important it is to provide support to all individuals," said Anderson. "This facility is remarkable and I am continuously amazed at



Employees from Marshall BankFirst serve an evening meal to individuals staying at the Twin Cities Ronald McDonald House.

the strength and encouragement it provides individuals nationwide."

Throughout the year, employees of Marshall BankFirst made a difference by providing their support at various Ronald McDonald House events. In October, Marshall BankFirst was a Diamond and Lead Sponsor of the annual Ronald McDonald House FamGlam charity gala. This was a night for Families to come together in Glam style and provide support to the organization known as a home-away-from-home for hundreds of families every year.

Employees have also consistently taken an active role in the Ronald McDonald House, Cooks for Kids volunteer meal program in which employees volunteer their time to prepare and serve an evening meal to families staying at the facility.

In the coming months, a main focus of Marshall BankFirst will be to ensure that our charitable contributions have a positive impact on our communities as well as share information on opportunities to get more involved. "Not only will encouraging corporate citizenship directly affect the community but it will also contribute to our corporate success," said Anderson.

### CONTACT INFORMATION

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