

Financial Services: Banks

Important disclosures can be found on pages 2 - 6 of this report.

This document represents an abbreviated discussion of the subject issuer and should not be used as the sole basis for an investment decision. Contact your FBR representative for complete research concerning the subject issuers, including research briefs and reports.

March 29, 2017

BofI Holding, Inc. (BOFI-\$28.08*)

San Diego, CA

Breaking News

Outperform

Bankruptcy Court Creates Confusion, but Not Real Risk-- Reiterate Outperform

We reiterate our Outperform rating on BofI Holding (BOFI) following a selloff given confusion over a document filed in a New Jersey Bankruptcy court. The plaintiff (who has filed for bankruptcy) alleges in a filing by the bankruptcy trustee that a loan from Quick Bridge (issued through BOFI) was not valid in an effort to have the debt dismissed. While the trustee is technically appointed by a division of the US DOJ, he is not a DOJ employee, yet some have misconstrued this action as an allegation by the DOJ against BOFI, which we consider misleading. In our opinion, this type of allegation from a bankrupt debtor is not uncommon in a bankruptcy process for lenders, and the accusations are predominately aimed at Quick Bridge rather than BOFI. We would use the selloff as an opportunity to buy BOFI's shares.

- **The Quick Bridge loan in question and how BOFI is involved.** The borrower took out a \$132,000 loan from Quick Bridge Funding, and then made \$51,658 of principal and interest payments before filing for bankruptcy. Quick Bridge is a non-bank small business lender. BOFI was the issuing bank on the loan, which was immediately assigned to Quick Bridge. This issuing bank structure is used by many marketplace lenders (On Deck, LendingClub, Prosper, etc.) and has been validated in several courts, but the plaintiff is alleging that this small business loan exceeds state usury caps, and constituted the use of a "rent a charter" scheme made the loan invalid and should not have to be repaid.
- **What does this mean for BOFI?** This claim is for less than \$100,000 and the credit exposure belongs to Quick Bridge, not BOFI. The broader risk might be question of whether non-bank and marketplace lenders can use an issuing bank structure to originate loans. This structure has been validated in some places and questioned in others. While we do not see this bankruptcy case as a significant challenge to the structure, we note that BOFI's economic exposure to this type of issuing bank business is small (we estimate a low single-digit percentage of earnings).

Bob Ramsey, CFA
703.312.1760
bramsey@fbr.com

Kyle Peterson, CPA
703.312.1632
kpeterson@fbr.com

*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

Important Information

FBR is the global brand for FBR & Co. and its subsidiaries.

This report has been prepared by FBR Capital Markets & Co. (FBRC), a subsidiary of FBR & Co.

FBRC is a broker-dealer registered with the SEC and member of FINRA, the NASDAQ Stock Market and the Securities Investor Protection Corporation (SIPC). The address for FBRC is 1300 North 17th Street Suite 1400, Arlington, VA 22209.

FBR Capital Markets LT, Inc. is an affiliate of FBRC and provides services for trading non-securities products.

All references to FBR & Co. mean FBR Capital Markets & Co. (FBRC) and its affiliates.

Company-Specific Disclosures

FBR acts as a market maker or liquidity provider for the company's securities: BofI Holding, Inc.

For up-to-date company disclosures including price charts, please click on the following link or paste URL in a web browser: www.fbr.com/disclosures.

General Disclosures

Information about the Research Analyst Responsible for this report:

The primary analyst(s) covering the issuer(s), Bob Ramsey, CFA, certifies (certify) that the views expressed herein accurately reflect the analyst's personal views as to the subject securities and issuers and further certifies that no part of such analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the report. The analyst(s) responsible for this research report has received and is eligible to receive compensation, including bonus compensation, based on FBR's overall operating revenues, including revenues generated by its investment banking activities.

Information about FBR's Conflicts Management Policy:

Our Research conflicts management policy is available at: <http://www.fbr.com/conflicts-management-policy>.

Information about investment banking:

In the normal course of its business, FBR seeks to perform investment banking and other services for various companies and to receive compensation in connection with such services. As such, investors should assume that FBR intends to seek investment banking or other business relationships with the companies.

Information about our recommendations, holdings and investment decisions:

The information and rating included in this report represent the long-term view as described more fully below. The analyst may have different views regarding short-term trading strategies with respect to the stocks covered by the rating, options on such stocks, and/or other securities or financial instruments issued by the company, and such views may be made available to all or some of our clients from time to time. Our brokers also may make recommendations to their clients, and our affiliates may make investment decisions that are contrary to the recommendations contained in this research report. Such recommendations or investment decisions may be based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, FBR, its affiliated entities, and their respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities or other financial instruments mentioned in this report.

We provide to certain customers on request specialized research products or services that focus on covered stocks from a particular perspective. These products or services include, but are not limited to, compilations, reviews, and analysis that may use different research methodologies or focus on the prospects for individual stocks as compared to other covered stocks or over differing time horizons or under assumed market events or conditions. Readers should be aware that we may issue investment research on the subject companies from a technical perspective and/or include in this report discussions about options on stocks covered in this report and/or other securities or financial instruments issued by the company. These analyses are different from fundamental analysis, and the conclusions reached may differ. Technical research and the discussions concerning options and other securities and financial instruments issued by the company do not represent a rating or coverage of any discussed issuer(s). The disclosures concerning distribution of ratings and price charts refer to fundamental research and do not include reference to technical recommendations or discussions concerning options and other securities and financial instruments issued by the company.

Our analysts' short-term views, recommendations by our brokers, views contained in products and services provided to customers on an individualized basis, and/or strategies, analysis or decisions made by FBR & Co. or its affiliates and their respective directors, officers, employees, or members of their immediate families may reach different conclusions than those published by the analyst in this report and could impact the price of the securities mentioned in this report.

Important Information Concerning Options Transactions:

This discussion is directed to experienced professional investors with a high degree of sophistication and risk tolerance.

Options transactions are not suitable for all investors. This brief statement does not address all of the risks or other significant aspects of entering into any particular transaction. Tax implications are an important consideration for options transactions. Prior to undertaking any trade you should discuss with your preferred tax, ERISA, legal, accounting, regulatory, or other advisor how such particular trade may affect you.

Opinion with respect to options is distinct from fundamental research analysis. Opinion is current as of the time of publication, and there should be no expectation that it will be updated, supplemented, or reviewed as information changes. We make no commitment to continue to follow any ideas or information contained in this section. Analysis does not consider the cost of commissions. Supporting documentation is available upon request.

Please ensure that you have read and understood the current options risk disclosure document before entering into any options transactions. The options risk disclosure document can be accessed at the following Web address: <http://optionsclearing.com/about/publications/character-risks.jsp>. If this link is inaccessible, please contact your representative.

Risks

Some options strategies may be complex, high risk, and speculative. There are potentially unlimited combinations of hedged and unhedged options strategies that expose investors to varying degrees of risk. Generally, buyers establishing long options positions risk the loss of the entire premium paid for the position, while sellers establishing short options positions have unlimited risk of loss. There are a number of commonly recognized options strategies, that expose investors to varying degrees of risk, some of which are summarized below:

Buying Calls or Puts--Investors may lose the entire premium paid.

Selling Covered Calls--Selling calls on long stock position. Risk is that the stock will be called away at strike, limiting investor profit to strike plus premium received.

Selling Uncovered Calls--Unlimited risk that investors may experience losses much greater than premium received.

Selling Uncovered Puts--Significant risk that investors will experience losses much greater than premium income received.

Buying Vertical Spreads (Calls--long call and short call with higher strike; **Puts**--long put and short put with lower strike) Same expiration month for both options. Investors may lose the entire premium paid.

Buying Calendar Spreads (different expiration months with short expiration earlier than long). Investors may lose the entire premium paid.

Selling Call or Put Vertical Spreads (Calls--short call and long call with higher strike; Puts--short put and long put with a lower strike, same expiration month for both options.) Investors risk the loss of the difference between the strike prices, reduced by the premium received.

Buying Straddle--Buying a put and a call with the same underlying strike and expiration. Investors risk loss of the entire premium paid.

Selling Straddle--Sale of call and put with the same underlying strike and expiration.) Unlimited risk that investors will experience losses much greater than the premium income received.

Buying Strangle--Long call and long put, both out of the money, with the same expiration and underlying security. Investors may lose the entire premium paid.

Selling Strangle--Short call and put, both out of the money, with the same expiration and underlying security. Unlimited risk of loss in excess premium collected.

Important Information about Convertible & Other Fixed-Income Securities and Financial Instruments:

This discussion is directed to experienced professional investors with a high degree of sophistication and risk tolerance.

Opinion with respect to convertible, other fixed-income securities and other financial instruments is distinct from fundamental research analysis. Opinion is current as of the time of publication, and there should be no expectation that it will be updated, supplemented, or reviewed as information changes. We make no commitment to continue to follow any ideas or information contained in this section.

Research analysts may consult Credit Sales and Trading personnel when preparing commentary on convertible and fixed-income securities and other financial instruments. FBR may be a market maker in the company's convertible or fixed-income securities. FBR Capital Markets LT, Inc. may be a market maker in financial instruments that are not securities.

Securities and financial instruments discussed may be unrated or rated below investment grade, may be considered speculative, and should only be considered by accounts qualified to invest in such securities.

Securities and financial instruments discussed may not be registered or exempt from registration in all jurisdictions. Nonregistered securities discussed may be subject to a variety of unique risk considerations, including those related to liquidity, price volatility, and lack of widely distributed information.

Rule 144A securities are sold only to persons who are Qualified Institutional Buyers within the meaning of Rule 144A, under the Securities Act of 1933, as amended.

Information about our rating system:

FBR instituted the following three-tiered rating system on October 11, 2002, for securities it covers:

- Outperform (OP) — FBR expects that the subject company will outperform its peers over the next 12 months. We recommend that investors buy the securities at the current valuation.
- Market Perform (MP) — FBR expects that the subject company's stock price will be in a trading range neither outperforming nor underperforming its peers over the next 12 months.
- Underperform (UP) — FBR expects that the subject company will underperform its peers over the next 12 months. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

A description of the five-tiered rating system used prior to October 11, 2002, can be found at <http://www.fbr.com/disclosures-pre-10702>.

Rating	FBR Research Distribution ¹	FBR Banking Services in the past 12 months ¹
BUY [Outperform]	60.59%	26.99%
HOLD [Market Perform]	37.80%	20.57%
SELL [Underperform]	1.61%	0.00%

(1) As of midnight on the business day immediately prior to the date of this publication.

General Information about FBR Research:

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable but is not guaranteed as to accuracy and does not purport to be complete. Opinion is as of the date of the report unless labeled otherwise and is subject to change without notice. Updates may be provided based on developments and events and as otherwise appropriate. Updates may be restricted based on regulatory requirements or other considerations. Consequently, there should be no assumption that updates will be made. FBR & Co. disclaims any warranty of any kind, whether express or implied, as to any matter whatsoever relating to this research report and any analysis, discussion or trade ideas contained herein. This research report is provided on an "as is" basis for use at your own risk, and FBR & Co. is not liable for any damages or injury resulting from use of this information. This report should not be construed as advice designed to meet the particular investment needs of any investor or as an offer or solicitation to buy or sell the securities or financial instruments mentioned herein, and any opinions expressed herein are subject to change. Some or all of the securities and financial instruments discussed in this report may be speculative, high risk, and unsuitable or inappropriate for many investors. FBR & Co. makes no representation as to the suitability or appropriateness of these securities or financial instruments for individual investors. Investors must make their own determination, either alone or in consultation with their own advisors, as to the suitability or appropriateness of such investments based upon factors including their investment objectives, financial position, liquidity needs, tax status, and level of risk tolerance. These securities and financial instruments may be sold to or purchased from customers or others by FBR acting as principal or agent.

Securities and financial instruments issued by foreign companies and/or issued overseas may involve certain risks, including differences in accounting, reporting, and registration, as well as foreign currency, economic, and political risks.

This report and the securities and financial instruments discussed herein may not be eligible for distribution or sale in all jurisdictions and/or to all types of investors. This report is provided for information purposes only and does not represent an offer or solicitation in any jurisdiction where such offer would be prohibited.

Commentary regarding the future direction of financial markets is illustrative and is not intended to predict actual results, which may differ substantially from the opinions expressed herein. If any hyperlink is inaccessible, call 800.846.5050 and ask for Editorial.

FBR utilizes a tiered approach to service its clients. The services provided by FBR's research analysts to clients vary, based upon a variety of factors including, but not limited to, client preferences and the extent of a client's total relationship with the Firm. FBR does not provide any of the Firm's clients with access to unpublished research opinion. FBR provides clients across all tiers equal access to research reports.

Pairs Trade Disclaimer

From time to time FBR Research Analysts will offer short term trading ideas, including identifying a paired trade. In a paired trade an investor buys the securities of one company and sells the securities of another company. The idea to buy the securities of one company and sell the securities of the other company is based on the expected short term price move or relative value between the two companies mentioned in the paired trade, not between the companies and any other companies. In contrast, the recommendations in a Research Analyst's published report reflects the Research Analyst's views on a company over the long term (i.e., the next twelve (12) months) relative to other companies covered by the Research Analyst. The trade idea in a paired trade is unrelated to the Research Analyst's long term view of the companies as expressed in the Research Analyst's most recently published research report. A paired trade idea to sell a company that is rated as a market perform or higher, or to buy a security that is a market perform or lower, is not inconsistent because the call to sell or buy the company is relative to the other company mentioned in the paired trade over the short term; it is not a long term view relative to other companies covered by the Research Analyst.

Important information for French addresses and potential investors:

Addresses and potential investors based in France expressly acknowledge that they have not been subject to any kind of solicitation by FBR Capital Markets & Co, as defined under Article L.341-1 and seq. of the French Monetary and Financial code. The above analyses have not been prepared in the context of a public offering of financial instruments in France within the meaning of Article L.411-1 and seq. of the French Monetary and Financial code and shall not be deemed to be drawn up for the purpose of providing investment services as defined under Article L.321-1 and seq. of the French Monetary and Financial code. In this respect, the above analyses shall not be qualified as a personalized investment advice related to financial instruments under French law and shall therefore not be deemed to be qualified as investment advice provided by FBR Capital Markets & Co.

Addresses and potential investors based in France may initiate the first contact with FBR Capital Markets & Co in order to get additional information on financial analyses and services provided by the latter. By doing so, addresses and potential investors based in France expressly acknowledge that the banking and financial solicitation regime as defined under Article L.341-1 and seq. of the French Monetary and Financial code shall not be applicable.

Information for Clients of FBRC:

This publication has been approved by FBR Capital Markets & Co. (FBRC), which accepts responsibility for its contents and its distribution to our clients. Any FBRC client who receives this research and wishes to effect a transaction in the securities or financial instruments discussed should contact and place orders with an FBRC Sales representative or a representative of FBR Capital Markets LT, Inc. for financial instruments that are not securities.

Copyright 2017 FBR & Co.

