

Mossberg's Investor Digest

Best Idea Profile

TierOne Corp. (Nasdaq: TONE)

DESCRIPTION:

With over \$3 billion in assets, 102-year-old TierOne is the largest publicly traded bank headquartered in Nebraska. One out of every eight households in Nebraska has a relationship with TierOne. The company is a full service consumer, commercial and agricultural bank with 69 branches located in Nebraska (59 locations), Iowa (9 locations) and Kansas (1 location). The company also offers brokerage, investment and insurance services; and has an Arizona-charted reinsurance subsidiary. Through its United Farm & Ranch Management subsidiary, TONE offers professional farm management services to agricultural customers.

KEY INVESTMENT CONSIDERATIONS:

Mitigating nonperforming assets – At the end of the second quarter, the company had \$276 million (roughly 10% of its loans) classified as nonperforming assets (loans past due more than 90 days, and repossessed assets). This number compares to \$179 million at the end of 2008, \$129 million at the end of 2007.

• **Shifting to in-market lending focus** – Last year, the company closed all nine of the loan production offices located outside of its primary markets in Nebraska, Iowa and Kansas. Loan production locations in Arizona, Colorado, Florida, Minnesota, Nevada, and North Carolina were closed. The percentage of loans in these states was 24% of the total loan portfolio, down from 29% a year earlier.

• **Minimizing exposure to more economically sensitive loans** – The mix of loans has also changed. Most of nonperforming loans were concentrated in land development and residential construction loans located primarily in Nevada. Since the beginning of the year, TONE has reduced development and construction lending by 160 million, or 6% of the loan portfolio.

• **Preserve cash** – The company suspended the dividend, stock repurchases and deferred payments on trust preferred securities. In addition, several cost saving initiatives were implemented.

Nebraska is one of the most economically stable regions of the country – Approximately 47% of the company's loans are in the state of Nebraska, which is an economically stable region. Nebraska has the second-lowest foreclosure rate in the country, low unemployment levels, fiscally sound state budgets, a low cost of living, and stable housing values.

TONE is ranked near the top of the most highly capitalized large financial institutions in the Nebraska – The FDIC classifies banks according to their risk-based capital ratio. A bank is considered "well capitalized" by the FDIC if this ratio is above 10%. TierOne's ratio was 11.3% at the end of the most recent quarter. To put this measure into perspective, of the bank failures from 1989 to 1993, less than one half of one percent failed if they had a risk-weighted capital ratio above 11%. (According to a July 2000 study conducted by the Federal Reserve Bank of New York) TONE did not participate in the TARP program.

VALUATION:

Most bank stocks trade at a multiple of book value. In the past, TierOne has traded as low as 1x and as high as 2x book value. With a book value of \$13.55, shares are currently trading at just 0.2x book. While the size of the bank's nonperforming assets may continue to grow and continue to erode book value, recent stabilization in the real estate market and the company's strategies to focus on less economically sensitive loans and geographies should help slow the rate of decline. The bank also appears to be well capitalized and capable of surviving an extended downturn in economic activity. At current levels, the stock offers an attractive risk/reward profile.

(Nasdaq: TONE)

Investment Data (as of 8/29/09)

Recent Price	\$2.38
52-Week Range	1.13 - 6.38
Fiscal Year End	December
Shares Outstanding	18 MM
Average Trading Volume (3 mos)	35,000
Market Capitalization	43 MM
Cash	51 MM
Long Term Debt	580 MM
Enterprise Value (EV)	572 MM
LT Debt/ Equity	2.4
Tangible BV/ Share	13.55
TTM Revenue	61 MM
P/ Revenue	3.6x
TTM EPS	-1.63
P/ EPS	N/A

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