Zacks Small-Cap Research

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Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com
111 North Canal Street ● Chicago, IL 60606

PSM Holdings, Inc.

(PSMH-OTCBB)

PSMH: Zacks Initiation Report - Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/06/2011
Current Price (12/06/11)	$0.60
Twelve- Month Target Price	**$3.00**

OUTLOOK

We are initiating coverage of PSM Holdings, Inc. (PSMH) with an Outperform recommendation and a 12-month target price of $3.00. PSMH's strategy involves rapidly expanding its loan production capacity through acquisitions and improving profit margins of acquired companies by migrating them to PSMH's higher margin lending platform, in order to achieve the requisite revenue stream and asset base to realize a stock listing on a senior stock exchange and become one of the top mortgage bankers in the United States. PSMH has executed this plan quite successfully, acquiring five companies with $10.9 million in annual revenues, $553 million of annual loan production, and $1.7 million in net income since March 15, 2011, for which it has issued 6.5 million shares worth $5.0 million. In addition, one acquisition is pending and more acquisitions are planned. When PSMH's acquisition strategy has been fully implemented by the fiscal fourth quarter ending June 30, 2012, the Company expects to be originating $2.4 billion in annual loan production, significantly higher than the $144 million PSMH generated in fiscal 2011. In addition, PSMH's wholly owned subsidiary, United Community Mortgage Corporation (UCMC), has just been approved as the tenth lender to join the family of preferred mortgage lenders on the Costco Mortgage Services Platform. When fully ramped up, this could add an additional $1.2 billion in mortgage loan originations.

SUMMARY DATA

52-Week High	**$0.90**
52-Week Low	**$0.51**
One-Year Return (%)	**-16.67**
Beta	**0.00**
Average Daily Volume (sh)	**4,086**
Shares Outstanding (mil)	**26**
Market Capitalization ($mil)	**$16**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**2.4**
P/E using 2013 Estimate	**1.2**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**Small-Growth**
Industry	**Fin-Mtg & Rel Svs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue

(in millions of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	0.936 A	0.927 A	0.841 A	1.129 A	3.833 A
2011	1.171 A	1.243 A	0.751 A	0.698 A	3.863 A
2012	2.182 A	5.470 E	8.624 E	12.372E	28.648E
2013					60.313E

Earnings per Share

(EPS is operating earnings before nonrecurring items)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	$(0.01)A	$(0.01)A	$(0.30)A	$(0.01)A	$(0.33)A
2011	$(0.00)A	$0.00A	$(0.06)A	$(0.09)E	$(0.15)A
2012	$(0.05)A	$0.02E	$0.10E	$0.17E	$0.25E
2013					$0.50E

Quarterly EPS may not add to total dues to changes in shares outstanding

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OVERVIEW

PSM Holdings, Inc. (PSMH) is engaged in the businesses of mortgage banking, in which PSMH both originates and funds mortgage loans through its own warehouse lines of credit and currently accounts for about 90% of closed loans, as well as mortgage brokerage, in which PSMH originates mortgage loans funded by over 50 third-party lenders. PSMH immediately sells these loans to its third-party lenders or into the secondary mortgage market. The Company offers a full range of mortgage loan products, including adjustable rate mortgages, fifteen, twenty, and thirty-year fixed rate loans, and balloon loans with a variety of maturities, as well as refinancing, construction loans, second mortgages, debt consolidation, and home equity loans.

PSMH had total assets of $5.1 million at the 2011 fiscal yearend on June 30, 2011, total revenues of $3.9 million for the 2011 fiscal year, and closed 845 mortgage loans, worth $144 million, during this period. Operations are carried out by the company's two wholly owned subsidiaries, PrimeSource Mortgage, Inc. (PSMI) and United Community Mortgage Corp. (UCMC). Through its subsidiaries, PSMH operates and is licensed in the following 17 states: Arkansas, California, Colorado, Georgia, Idaho, Iowa, Kentucky, Louisiana, Montana, Nebraska, New Jersey, New Mexico, New York, Oklahoma, Texas, Washington, and Wyoming. State license applications are pending in an additional 17 states, with the majority expected to be approved by December 31, 2011.

At the beginning of 2011, PSMH developed a new strategy to adapt to changes in federal regulations regarding mortgage banking and brokerage that became effective on April 1, 2011. The Company's new business model involves rapidly expanding its loan production capacity through acquisitions and improving profit margins of acquired companies by migrating them to PSMH's higher margin lending platform, in order to achieve the requisite revenue stream and asset base to realize a stock listing on a senior stock exchange and become one of the top mortgage bankers in the United States. The acquisition targets are generally mature, profitable businesses that have a well-established presence in the real estate markets in which they operate. PSMH has been quite successful in this endeavor, acquiring five companies with $10.9 million in annual revenues, $553 million of annual loan production, and $1.7 million in net income since March 15, 2011, for which it has issued 6.5 million shares worth $5.0 million. In addition, one acquisition is pending and more acquisitions are planned.

An important element of PSMH's new business model involves owning branch offices, rather than maintaining a network of independently owned branch offices as PSMH did under its old legacy business model. This has significant implications for PSMH's revenue and expense streams going forward.

Under the old business model, operations are conducted by PSMH's wholly owned subsidiary, PrimeSource Mortgage, Inc. (PSMI) through 30 independently owned branch offices located in 17 states, primarily in the southwestern states of New Mexico, Oklahoma, and Texas, under an Independent Network Office Agreement. This exclusive agreement provides that PSMI share commissions with branch offices in one of two ways. Under one method accounting, PSMI receives 10% of total commissions generated by the branch office or a $500-550 flat fee per loan closed, following payment by the branch owner to PSMI of a $20,000 negotiated upfront fee to join its network. Flat fee payments from the branches account for about 95% of PSMI revenues. Under the second arrangement, a new branch may join PSMI's network at no upfront cost, and PSMI receives 50% of total commissions generated by that office. In return, PSMI provides branch offices with access to its list of approved lenders, as well as PSMI's warehouse credit line. These agreements are effective for a period of 30 days and are automatically extended for 30-day periods until cancelled.

From an accounting standpoint, under the old business model, payments received from the branch owners (either as a flat fee or percentage of commission income) are booked as revenue, while all operating expenses of the branches and those of parent holding company PSMH are booked as expenses.

Under the new business model, operations are conducted by PSMH's wholly owned subsidiary, United Community Mortgage Corp. (UCMC), which owns the acquired branches. This means that all branch revenue flows directly to PSMH through UCMC, and PSMH through UCMC is responsible for all branch operating expenses. That said, acquired branch offices will still be managed on a day-to-day basis by existing management to take advantage of their expertise and knowledge of local real estate markets.

Importantly, the new business model and the old business model will be run concurrently along with the dual systems of accounting. As the new business model gains traction, we expect the contribution from the old business model to account for an increasingly smaller proportion of revenue and expenses.

The majority of loan applications, approximately 75%, are generated from business contacts and previous client referrals at each of the branch offices, while realtor referrals generate another 15%. Approximately 10% come from other advertising and marketing efforts, including roughly 7% from Nationwide By Owner, Inc.

PSMI has an exclusive license agreement with Nationwide By Owner, Inc. (NWBO), a Texas-based company that provides proprietary software that produces a database of sales leads containing home buyer and home seller information for persons seeking financing on the purchase or refinancing of real estate. NWBO derives its leads from individuals in approximately 17 states selling their homes personally rather than through a real estate agent or through real estate agents that have relationships with PSMI's branch offices.

The agreement with NWBO, originally signed on April 14, 2006 and recently renewed for an additional five years on April 14, 2011, is automatically renewable for two successive three-year periods and thereafter for successive one-year terms, unless either party notifies the other of its intent not to renew the agreement prior to the third automatic renewal term. The agreement is also terminable by either party for breach by the other party or change of control of the other party. PSMH paid $150,000 and issued 150,000 shares of common stock worth $675,000 to NWBO and its owners for this license, which is being amortized over 14 years.

The NWBO license agreement also obligates PSMI to create a National Processing Center for the collection, organization, and tracking of the sales leads database generated by NWBO, provided that NWBO is successful in securing an agreement or arrangement to market its smart signs through a national marketing company or a national retail distributor. Since this has not yet occurred, the center remains in the planning stage. In addition, PSMI is obligated to obtain mortgage licenses in all 50 states.

Once the National Processing Center has been established, the Company has also committed to provide yearend bonuses under the license agreement, which the parties can elect to take in cash, stock, or any combination of the two. Bonuses will be calculated by multiplying the annual net profit of the National Processing Center by the following percentage rates: 15% for the initial five-year term of the license agreement, 20% for the first automatic renewal term, 25% for the second automatic renewal term, and 30% for the third automatic renewal term and all subsequent annual renewal terms.

More recently, PSMH announced that its subsidiary, United Community Mortgage Corporation (UCMC), has been approved as the tenth lender to join the family of preferred mortgage lenders on the Costco Mortgage Services Platform (MSP) that began in January 2010, and is operated and managed by First Choice Bank. UCMC's office in Tulsa, Oklahoma will begin providing mortgage services on December 1, 2011 to all US Costco members, totaling 22.9 million households. Initially, UCMC will service leads originated in Oklahoma, Texas, New Mexico, and Missouri, though other states will likely be added later.

The Costco relationship has significant revenue-enhancing potential. UCMC has initially committed to take 1,000 leads per month for the Costco MSP, but expects to increase this to 4,000-5,000 leads by the beginning of the fiscal fourth quarter. UCMC believes it can handle this level of leads with its current infrastructure. Typically, about 10-24% of leads convert into mortgage loans, which for UCMC would be about 100-240 loans per month initially. Given the above-average credit quality profile of Costco's

customer base, including higher than average FICO scores and household income, UCMC expects the average loan size to run about $200,000, higher than the loan size for PSMH's existing customer base averaging about $150,000-175,000. Thus in total, PSMH's initial Costco-related loan production could be about $20-48 million per month, or $240-576 million per year. When the Costco program is fully ramped up, mortgage loan production could be as high as $1.2-2.9 billion. Margins on loans originated under the Costco MSP are expected to be lower than those on loans originated under the new business model.

HISTORY

The Company was incorporated under the laws of the State of Utah on March 12, 1987, as Durban Enterprises, Inc. On July 19, 2001, Durban Enterprises, Inc., created a wholly-owned subsidiary called Durban Holdings, Inc., a Nevada corporation, to facilitate changing the domicile of the Company to Nevada. On August 17, 2001, Durban Enterprises, Inc. merged with and into Durban Holdings, Inc., leaving the Nevada Corporation as the survivor.

On May 18, 2005, Durban Holdings, Inc. completed the acquisition of all of the outstanding stock of PrimeSource Mortgage, Inc., a Texas corporation that was incorporated February 15, 1991 under the laws of the State of Texas, by a stock for stock exchange in which the stockholders of PrimeSource Mortgage, Inc. received 10,250,000 shares, or approximately 92% of the outstanding stock of the Company. Following the acquisition, effective May 18, 2005, the name of the Parent Durban Holdings, Inc. was changed to PSM Holdings, Inc. For reporting purposes, the acquisition was treated as an acquisition of the PSM Holdings by PrimeSource Mortgage, Inc. (reverse acquisition) and a recapitalization of PrimeSource Mortgage, Inc. Goodwill was not recognized from the transaction.

The ticker symbol for PSM Holdings' common stock is PSMH. PSMH has been quoted on the OTC Bulletin Board since October 2009 and has been quoted on the Pink Sheets since October 2005.

STRATEGY

The Company's strategy involves rapidly expanding its loan production capacity through acquisitions and improving profit margins of acquired companies by migrating them to PSMH's higher margin lending platform, to achieve the requisite revenue stream and asset base to realize a stock listing on a senior stock exchange and become one of the top mortgage bankers in the United States.

Development of this strategy was propelled by changes in federal legislation affecting the mortgage industry, particularly with regard to loan officer compensation, requirements related to consumer disclosures, other licensing-related requirements for mortgage professionals, and increased net worth requirements for mortgage brokerage companies dictated by the Department of Housing and Urban Development (HUD). This has dampened profitability prospects for many small-to-mid sized mortgage banking and brokerage firms and has driven them to join more established firms, such as PSM Holdings.

There are two phases to PSMH's strategy, the first of which will increase loan production to $100 million per month, much higher than PSMH's pre-acquisition monthly total of $10-15 million. This growth is coming from PSMH's aggressive acquisition of mature and profitable mortgage banking and brokerage companies across the United States. PSMH has closed five acquisitions since March 15, and believes that another one to two are necessary to complete Phase 1, after which PSMH will apply for a listing on a senior stock exchange, such as NASDAQ or the old American Stock Exchange.

Phase 2 will double the Company's Phase 1 production levels to $200 million per month, and can likely be accomplished with only two to three additional acquisitions. Importantly, PSMH has already identified these companies, and has initiated preliminary negotiations.

There are four strategic elements in place that have made these acquisitions possible.

1. PSMH now has commitments in place to provide warehouse credit lines to accommodate in excess of $200 million in monthly mortgage originations.

2. PSMH is now a "Full Eagle" mortgage banking entity. This allows the origination of Federal Housing Administration (FHA) loans on the banking side of all transactions, important because the FHA accounts for an increasingly larger share of the new mortgage market, currently about 20-25% of all loans originated in the US. Importantly, FHA loans currently account for roughly three-fourths of PSMH's total mortgage volume, or about triple the share of FHA mortgage loan originations in the US. Moreover, the 1% origination fee cap for FHA mortgage loans was lifted on January 1, 2010, and origination fees for these loans are currently in the 3-4% range, about 50-75 basis points more than those for conventional mortgage loans.

3. PSMH's public ownership as a listed company enables acquired firms to retain and recruit high-production loan officers, which will lead to revenue gains.

4. PSMH's strategy of purchasing target companies with publicly listed PSMH shares affords owners enhanced liquidity when they decide to leave the mortgage business since it is easier to sell shares than a mortgage brokerage business.

In addition, PSMH is establishing regional mortgage lending centers through which branch loan processing will be funnelled for each region, and may result in some cost synergies. In fact, PSMH has already established two regional lending centers using recently acquired companies as bases. Fidelity Mortgage Inc. in Grand Junction, Colorado oversees seven states, including Colorado, Idaho, Utah, North Dakota, South Dakota, Montana, and Wyoming. Iowa Mortgage Professionals, Inc. in Des Moines, Iowa oversees six states, including Iowa, Wisconsin, Minnesota, Nebraska, Illinois, and Missouri.

ACQUISITIONS

PSMH has been quite successful in its acquisition strategy, acquiring five companies since March 15, 2011, with two more acquisitions pending, as shown in the table following. PSMH has issued 6.5 million shares worth $5.0 million for the five companies that have been acquired to date, having $553 million in annual loan production, $10.9 million in annual revenues, and $1.7 million in annual net income.

Completed Acquisitions	Location	Date Acquired/ Announced	# of Shares Issued	$ Amount of Shares Issued ($ in Millions)	*Annual Loan Volume ($ in Millions)	*Annual Revenue ($ in Millions)	*Annual Net Income ($ in Millions)	Staff
United Community Mortgage Corp.	New Jersey	03/15/11	2,392,858	$1.675	$40	$0.845	$0.074	6
Brookside Mortgage, L.L.C.	Oklahoma	07/01/11	800,000	$0.720	$126	$4.614	$0.526	52
Founders Mortgage, LLC	Missouri	07/01/11	250,000	$0.225	$79	$0.910	$0.073	8
Fidelity Mortgage Inc.	Colorado	08/01/11	1,785,714	$1.723	$144	$2.018	$0.559	16
Iowa Mortgage Professionals, Inc.	Iowa	11/01/11	1,285,714	$0.681	$164	$2.472	$0.432	26
Total			**6,514,286**	**$5.024**	**$553**	**$10.857**	**$1.664**	**108**
Pending Acquisition								
LoanLeaders of America, Inc.	California	10/12/11	1,714,286					

* Data for 2010 fiscal year, except Fidelity as of June 30, 2011

It should be noted that the acquired companies share certain characteristics. Generally, the acquisitions are in specific locations that have performed well during this residential real estate downturn, mostly reflecting the fact they were located in local real estate markets that were not overbuilt to begin with. Second, these companies are mature, established businesses that generally have profitable operating track records over a number of years. Finally, all of these purchased companies were first brought to the attention of PSMH by its lead warehouse lender, American Southwest Mortgage Corp., which had banking relationships with each of the acquired institutions. As such, PSMH was dealing with known entities, rather than blindly purchasing companies about which it had little knowledge, thereby enhancing the potential success of these acquisitions.

Details of these acquisitions are discussed following.

Completed Acquisitions

United Community Mortgage Corp. (UCMC)

On March 15, 2011, PrimeSource Mortgage, Inc. (PSMI) completed the acquisition of United Community Mortgage Corp. (UCMC), a New Jersey corporation. The Company purchased all of the tangible assets and all issued and outstanding shares of UCMC common stock and preferred stock in exchange for 2,392,858 shares of the Company's common stock valued at $1,675,000. This acquisition was strategically structured to purchase UCMC because of its "Full Eagle" licensing status with Housing and Urban Development (HUD), and the valuable mortgage brokerage state licensing in the states of New Jersey and New York. UCMC had annual loan production of $40 million in 2010.

Brookside Mortgage, L.L.C. (Brookside)

On July 1, 2011, PSMH completed the acquisition of Brookside Mortgage L.L.C. Brookside, which was formed in February 1999, is located in Tulsa, Oklahoma with branches in Oklahoma City and Norman, and had $126 million of loan production in 2010. At closing, Brookside Mortgage L.L.C. was merged into UCMC, which is a wholly owned subsidiary of PSMI. The principals of Brookside, Mr. Greg Mahaney and Mr. Michael Thompson, received 800,000 shares of common stock of PSMH for their equity in Brookside Mortgage. Mr. Mahaney has also joined the Board of Directors of PSMH.

Founders Mortgage, LLC (Founders)

On July 1, 2011, PSMH acquired Founders Mortgage, LLC of St. Louis, Missouri, which was then merged into UCMC, a wholly owned subsidiary of PSMI, which, in turn, is a wholly owned subsidiary of PSMH. Mr. Peter Gubany, the President of Founders Mortgage, received 250,000 shares of PSMH common stock for his equity position in Founders Mortgage, LLC. Founders Mortgage, which has been doing business in St. Louis for five years, has eight employees, and originated $79 million in loan production in 2010.

Fidelity Mortgage Inc. (Fidelity)

On August 1, 2011, PSMH completed the acquisition of Fidelity Mortgage Inc., which has been doing business in Grand Junction, Colorado since 1986 and has roughly a 30% share of that market. Fidelity Mortgage was merged into UCMC, a wholly owned subsidiary of PSMI. The principals of Fidelity Mortgage, Mr. James Pulsipher and Mr. Jared Peterson, received 1,785,714 shares of common stock of PSMH for their equity in Fidelity Mortgage. Mr. Pulsipher will also sit on the board of directors of UCMC. Fidelity had $144 million in annual loan production in 2010.

According to the terms of the agreement, Mr. Pulsipher will continue to lead the Grand Junction mortgage operation, which will serve as the regional corporate offices and lending center for Prime Source Mortgage, Inc. This region consists of current and new offices in Colorado, Idaho, Utah, Montana, North Dakota, South Dakota, and Wyoming.

In addition, PSMH has signed a letter of intent to purchase FMC Properties, LLC., which is the holding company that owns the Fidelity Mortgage building located at, 700 Belford Avenue, Grand Junction, Colorado.

Iowa Mortgage Professionals, Inc. (IMP)

On November 1, 2011, PSMH completed the acquisition of Iowa Mortgage Professionals, Inc., a mortgage banking and brokerage company based in Des Moines, Iowa. Mr. Randy Stevens, the principal owner of IMP, received 1,285,714 shares of PSMH in exchange for all the outstanding equity shares of IMP. In addition, Mr. Stevens was named a Vice President of UCMC and Regional Manager for the Iowa operations. The region includes Iowa, Wisconsin, Minnesota, Nebraska, Illinois, and Missouri. Mr. Stevens also became a member of the UCMC board of directors. IMP had annual loan production of $164 million in 2010.

Pending Acquisition

LoanLeaders of America, Inc. (LoanLeaders)

On October 12, 2011, PSMH announced it had entered into a Letter of Intent (LOI) to purchase LoanLeaders of America, Inc., a national mortgage banking firm established in 1998 and headquartered in Santa Ana, California. Importantly, LoanLeaders is a designated "Full-Eagle" mortgage banking company currently licensed in seventeen states with pending licenses in ten additional states. LoanLeaders of America, Inc. will be acquired by UCMC, a wholly-owned subsidiary of PrimeSource Mortgage, Inc. (PSMI), and its parent company, PSMH. At the closing of the transaction, LoanLeaders' two principal owners, Martin and Steven Foigelman, will receive 1,714,286 common shares of PSMH. The closing of the transaction, expected by the end of 2011, is subject to further negotiations and the execution of a definitive agreement between the parties. LoanLeaders has monthly loan production of about $20-25 million.

Lapsed Acquisition Agreements

American Trust Mortgage, Inc. (ATMI)

On March 23, 2011, PSMH announced that it had signed a Letter of Intent (LOI) to acquire American Trust Mortgage, Inc. (ATMI), a mortgage brokerage company based just outside Boston. Under the terms of the LOI, which expired on April 16, 2011, ATMI was to be acquired by PSMH and become a wholly owned subsidiary of PrimeSource Mortgage, Inc. (PSMI), the mortgage banking subsidiary of PSMH.

CBB, Inc. (CBB)

On June 14, 2010, PSMH signed a Letter of Intent (LOI) to acquire CBB, Inc. (CBB), an Oklahoma-based management company that operates a successful regional mortgage banking firm in the Southwest. Under terms of the LOI, which expired on September 30, 2010, CBB shareholders would have received common shares from PSMH representing approximately 70% of the outstanding shares of PSMH stock, and CBB would have become PSMH’s wholly-owned subsidiary.

Additional Acquisitions

PSMH will be making additional acquisitions over the coming year, though these have not yet been disclosed. In Phase 1, which is expected to be completed by December 31, 2011, PSMH will purchase seven to eight companies having $85-$90 million of monthly combined total loan production, bringing total monthly loan volume to roughly $100 million. During Phase 2, expected to be completed by June 30, 2012, the end of PSMH’s current fiscal year, the Company intends to acquire an additional two to three companies with roughly $100 million in combined monthly loan volume. Following completion of Phase 2, PSMH will be able to generate about $200 million in monthly loan volume from these acquisitions.

EARNING POWER

On an historical basis under the legacy business model, PSMH has been unprofitable for the five years ending June 30, 2011, ranging from a low of negative $549,000 in fiscal 2008 to a high of negative $4,365,000 in fiscal 2010, as shown in the following table.

This reflects two factors: (1) the loss of five of the top-producing loan offices following unsuccessful revenue-sharing negotiations with these offices when PSMH went public in 2005, leaving PSMH with only lower-revenue producing branches that did not generate sufficient revenue to cover operating expenses at the holding company (though these branches by themselves were profitable); (2) large compensation payments to the CEO and President in fiscal 2010 and 2011. These payments consisted of 500,000 shares of restricted common stock and of 2,000,000 warrants to each party, having a combined value of $3.79 million in fiscal 2010 and of $662,000 in noncash stock awards in fiscal 2011; and (3) one-time acquisition costs of about $242,000 in fiscal 2011

Without these extra expenses, PSMH would have lost only $575,000 in fiscal 2010 (compared to the $4.365 million loss it actually reported) and lost $1.2 million in fiscal 2011 (versus the $2.1 million loss reported).

On a pro forma basis in fiscal 2011, including the UCMC acquisition since March 15, 2011 and Founders, Brookside, Fidelity, and IMP for the entire fiscal year, PSMH still reports a net loss of $0.8 million. However, we do not believe that this is indicative of PSMH's earning power going forward.

(Dollars in Millions)	6/07	6/08	6/09	6/10	*6/11	Foun-ders	Brook-side	Fidel-ity	**IMP	Adjust-ments	*Pro Forma 6/11
Revenues	2.893	2.539	3.252	3.833	3.863	0.743	3.615	2.658	2.472		13.351
Brokerage Commissions	2.405	2.167	2.943	3.297	3.045	-----	-----	-----	-----		3.045
SG&A	1.025	0.551	0.909	4.852	2.852	0.732	3.225	2.498	2.022	(0.447)	10.882
Depreciation & Amortization	0.072	0.071	0.070	0.070	0.081	-----	0.020	0.015	0.017	0.098	0.231
Wages	0.372	0.316	-----	-----	-----	-----	-----	-----	-----		-----
Other Income (Expense)	0.023	0.017	-0.004	0.021	0.038	-----	0.013	-0.044	-----	-----	0.007
Zacks adjusted net income	-0.958	-0.549	-0.674	-4.365	-2.077	0.011	0.383	0.101	0.433	0.349	-0.800
Gross Profit Margin	3.07%	2.50%	2.58%	2.75%	2.69%	1.75%	3.01%	2.08%	1.37%		2.17%
Pretax Margin	-33.1%	-21.6%	-20.7%	-113.9%	-53.8%	1.5%	10.6%	3.8%	17.5%		-6.0%
Annual Loan Production	94.3	101.5	126.1	139.3	143.7	79.0	126.1	144.5	164.0		657.3

*Data includes UCMC from March 15, 2011 acquisition date
** December 2010 calendar year

Rather, we believe that upon completion of the Company's acquisition strategy and the addition of the loans generated from leads on the Costco Mortgage Services Platform, PSMH will transform its income statement and ultimately generate a strong level of profitability. The primary reasons for this are fourfold. First, PSMH, with $200 million in monthly warehouse lending capacity, expects to dramatically expand loan production volume at the acquired companies, whose loan production has been limited by the small size of their warehouse lines of credit, as well as due to the hiring of additional loan production officers. Second, PSMH will be able to attract top-talent, high-production loan officers with a compensation

package that includes a good salary as well as bonus payments in publicly traded stock that other privately held mortgage bankers are unable to offer. Third, gross profit margins of acquired companies will jump to 3-4% of loan volume originated from 2-3% prior to acquisition as these companies migrate to PSMH's higher margin lending platform and originate a larger proportion of higher margin FHA loans. Fourth, the Costco relationship could add about $20-48 million of monthly loan production, though margins on this business will be lower than those expected for loans originated under the new business model. While we expect costs to increase significantly as well, we believe that expenses will advance at a proportionately lower rate than revenues, thereby enhancing bottom-line profits.

To get into more detail, under the new business model, PSMH generates revenue from two primary sources: (1) loan and other fees from customers either refinancing an existing mortgage loan or getting a mortgage loan for the purchase of a new home. These fees range from 2.50-4.00% of the dollar amount of the mortgage loan originated and average roughly 3.50% under the new business model (2) override fees from warehouse lines of credit on loans closed under the lines, which are typically 25 -47 basis points of the dollar amount of loans originated and average roughly 41 basis points. For example under the new business model, $100 million in monthly mortgage loan originations will generate $3.5 million in loan fees and $410,000 in warehouse lending fees per month, or $42 million in loan fees and $4.9 million in warehouse lending fees per year for a total of $46.9 million, well in excess of the $13.4 million in pro forma revenues for PSMH for the most recent fiscal year ending June 30, 2011.

PSMH is also exploring a new source of revenue, though this is not yet written in stone. PSMH would receive one-half of total revenues earned by a certain credit card-issuing bank for any of PSMH's mortgage loan customers who apply for and use a credit card issued by that bank. Since the mortgage loan customer has already been accepted as a good credit risk by PSMH, it would involve no additional underwriting or other costs for PSMH, with all revenues flowing directly to the bottom line. Moreover, all funding and credit quality risks would be assumed by the card-issuing bank.

On the cost side under the new business model, the primary expenses are for compensation, which are now paid out as wages, rather than brokerage commissions, following the change in compensation practices necessitated by modifications to federal regulations beginning on April 1, 2011. Owners and principals of acquired companies are paid at a flat annual salary of $100,000-120,000 per year. In addition, they may receive production bonuses, as well as overrides on production from the addition of new branches, which have $3 million per month in originations, of 7.5 basis points in the first year, 5 basis points in the second year, and 2.5 basis points in the third year.

Loan production officers are paid a percentage of the dollar volume of loans originated. This percentage is a fixed amount of 40-75 basis points of loan volume, with the exact percentage determined by local market conditions in each region of the United States.

In addition, all employees are eligible for bonus payments in the form of PSMH stock. Importantly, we expect total compensation costs of acquired companies to be lower than they were prior to acquisition when owners and principals earned a significant override on loan production and loan officers earned fees at 1-2% of the dollar amount of loans originated, which will enhance Companywide profitability. That said, headcount has grown explosively due to acquisitions, as well as subsequent hirings following acquisition. In total, PSMH had 120 full-time employees at September 30, 2011 compared to only 4 employees a year ago.

In fiscal 2011, PSMH entered into three-year employment agreements beginning on January 1, 2011 with Ron Hanna, President and CEO of PSMH, and Jeffery Smith, President and CEO of PSMI. These agreements are automatically renewed for one-year periods, unless terminated by either party by written notice. Under the terms of these agreements, Mr. Hanna will receive an annual salary of $225,000 in year one, $250,000 in year two, and $275,000 in year three, while the compensation figure for Mr. Smith is $200,000 annually. Mr. Hanna also received a $525,000 signing bonus in the form of 750,000 shares of PSMH stock in 2011. Both employees may receive a bonuses of up to 100% of the base salary should they meet specific performance targets.

In addition to compensation costs, there are also SG&A expenses related to maintaining branch offices and for corporate overhead, though these typically account for only about 25-30% of total expenses. Over the near term, we expect these expenses to remain the same post acquisition as they were pre acquisition since each branch will still be managed on a day-to-day basis by existing management to take advantage of their expertise and knowledge of local real estate markets. Over the longer term, PSMH is in the process of establishing regional mortgage lending centers through which branch loan processing will be funnelled for each region, and may result in some cost synergies.

Including results from uncompleted and undisclosed acquisitions, PSMH estimates that total revenues for the fiscal year ending June 30, 2012 will be approximately $43 million, based upon origination volume of $1.1 billion, and net earnings should be about $9-12 million. Per PSMH's estimates, diluted earnings per share will approximate $0.33-0.44 per share, based upon roughly 27 million shares outstanding.

Our projections, which are based only upon completed acquisitions where financial results have been disclosed as well as new business from the Costco MSP, are shown at the back of the report.

FINANCES

PSMH's balance sheet is small, reflecting the fact that it is a service business and its main assets consist of its employees. Until PSMH began its acquisition strategy, total assets were roughly $1 million, as shown in the table below.

(Dollars in Millions)	6/07	6/08	6/09	6/10	6/11*	Founders	Brookside	Fidelity	IMP	Adjustments	Pro Forma 6/11*
Cash & Marketable Securities	0.202	0.071	0.125	0.106	0.021	0.090	0.299	0.255	0.273	(0.562)	0.376
Receivables	0.030	0.075	0.090	0.154	0.041	-----	0.008	0.040	0.155	0.002	0.246
Other Current Assets	0.000	-----	-----	0.060	0.196	0.012	0.030	1.172	1.692	(1.172)	1.930
Total Current Assets	0.232	0.146	0.215	0.320	0.258	0.102	0.337	1.467	2.120	(1.732)	2.552
Net Property/Plant/Equipment	0.043	0.036	0.028	0.017	0.025	0.037	0.077	0.040	0.100	(0.017)	0.262
Loans and Notes Receivable	0.175	0.100	0.094	0.097	0.601	-----	-----	-----	-----	-----	0.601
Intangibles	0.754	0.695	0.636	0.577	1.596	-----	-----	-----	-----	1.627	3.223
Other Assets	-----	-----	-----	-----	0.009	0.006	0.030	0.361	-----	(0.387)	0.019
Total Assets	1.204	0.977	0.973	1.011	2.489	0.145	0.444	1.868	2.220	(0.509)	6.657

Short-term Debt	-----	-----	-----	-----	-----	-----	-----	1.028	1.667	(1.029)	1.666
Accrued Stock Payable	-----	-----	-----	-----	0.778	-----	-----	-----	-----	-----	0.778
Other Payables and Accruals	0.113	0.122	0.106	0.345	0.174	-----	0.018	0.520	0.066	(0.512)	0.266
Total Current Liabilities	0.113	0.122	0.106	0.345	0.952	-----	0.018	1.548	1.733	(1.541)	2.710
Total Long-Term Debt	-----	0.080	0.110	0.120	0.120	-----	-----	-----	0.006	-----	0.126
Other Liabilities	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Preferred Stock	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Common Shareholders' Equity	1.091	0.775	0.757	0.546	1.417	0.145	0.426	0.320	0.481	1.032	3.821
Total Liabilities and Equity	1.204	0.977	0.973	1.011	2.489	0.145	0.444	1.868	2.220	(0.509)	6.657

*Data includes UCMC from March 15, 2011 acquisition date

Since the first acquisition on March 15, 2011, the balance sheet has expanded by over $5.6 million to $6.7 million pro forma at June 30, 2011, consisting of $2.6 million in current assets, $0.6 million in long-term notes receivable, $0.3 million in property, plant, and equipment, and $3.2 million of intangibles. Of the total amount of intangibles, nonamortizable goodwill is $1.8 million, $0.9 million of which relates to the UCMC acquisition and its Full Eagle license and the $0.9 million balance stemming from the acquisitions of Founders, Brookside, Fidelity, and IMP. Approximately $1.4 million of intangibles relates to amortizable customer lists and licenses. Off balance sheet at June 30, 2011, PSMH had $1.1 million outstanding under one of its warehouse lines of credit ($8.2 million at September 30, 2011), which was offset by an equal amount of funding receivables.

The $0.6 million in receivables consists of an $89,000 loan receivable from NWBO and two separate notes related to the acquisition of UCMC: (1) a Letter of Repayment, dated December 31, 2010, with three UCMC employees in an initial amount of $189,654 (balance of about $152,000 currently, after a $38,000 write-off), which are unsecured, non-interest bearing and due on demand. Payments of these loans are made commissions earned by these employees and will become due and payable upon employee termination and (2) a Promissory Note, dated December 1, 2010 and secured by real estate parcels, with an unrelated third party for a principal sum of $360,000, upon which interest accrues at LIBOR plus 55 basis points, payable quarterly. The principal and unpaid interest is due on December 1, 2016.

There are several other related party transactions, but these must be approved by PSMH's board of directors beforehand, are conducted at arm's length, and are generally immaterial with one exception. This relates to Mr. Matt Lamoreux, the owner of the Farmington, New Mexico branch office, who also sits on PSMH's board of directors and received commissions totalling $202,282 for the 2011 fiscal year.

The Company employs very little debt, but had a five-year $120,000 unsecured credit line with the Company's former president, bearing an adjustable interest rate of prime minus 76 basis points, of which the entire amount was outstanding at June 30, 2011. This was entirely paid off on October 5, 2011.

In addition, PSMH has four warehouse lines of credit with CBB, Inc., American Southwest Mortgage Corp. (AMSW), the wholesale and correspondent mortgage subsidiary of Spirit Bank (Spirit Bank) in Tulsa Oklahoma, with the bank having about $1 billion in assets, and First Funding. These lines total $81 million, which provide short term funding for mortgage loans originated by the branches, and can be turned over 2 ½ times per month, providing funding capacity for approximately $200 million in monthly mortgage loan originations.

Details of the warehouse credit lines are as follows: (1) CBB, Inc.—on August 3, 2008, the Company entered into a warehouse line of credit agreement with CBB, Inc. for up to $1,000,000 bearing an annual interest rate of 5%; (2) First Funding—on June 11, 2009, the Company entered into an additional warehouse line of credit with First Funding for up to $1,000,000 which was increased on June 19, 2009 to $4,000,000, with an interest rate of prime plus 50 basis points; (3) CBB, Inc.—on September 30, 2010, the Company entered into a warehouse line of credit with CBB, Inc. for up to $1,000,000 for a one year term, unconditionally guaranteed for payment by its President, with a rate of prime plus 2% and a 7% floor; and (4) a $75 million warehouse line of credit with American Southwest Mortgage Corp., details of which have not been disclosed. The lines of credit are repaid within 5 to 7 days when the loan is sold. Importantly, PSMH does not intend to hold and service the loans and the loans are only available to fund mortgage loans and not to provide operating funds for the Company.

As to shareholders' equity, the Company has doubled shares outstanding in the past couple of years to almost 26 million, as shown in the following table. In addition to issuing 6.5 million shares of common stock for acquisitions, PSMH has issued large blocks of stocks for other corporate purposes. These include: (1) 2.9 million shares of common stock and 4.0 million of unexercised warrants issued in fiscal 2010-2011 as bonuses for PSMH officers Mr. Ron Hanna and Mr. Jeffrey Smith; (2) 1.0 million shares of common stock and 1.0 million of exercised warrants issued in fiscal 2011-2012 to a PSMH director and an accredited investor; (3) 0.529 million shares of common stock and 0.529 million of unexercised

warrants sold in fiscal 2012 pursuant to a $975,000 private placement offering that began on July 11, 2011; (4) 0.830 million shares issued to vendors for third party services; and (4) 0.357 million shares issued to directors, employees, and branch owners as compensation for services rendered. In total, PSMH has issued roughly 13 million shares since June 30, 2009, and has 25.9 million shares of common stock outstanding at November 16, 2011.

As to the 4.5 million of unexercised warrants, these may be exercised at a price of $1.00 through 2014-2015. Including the 4.5 million warrants and 2.0 million of common stock that is to be issued later in fiscal 2012 primarily for an acquisition, there were 32.4 million shares outstanding on a pro forma basis at November 16, 2011.

	# of Shares
Balance at June 30, 2009	12,942,294
Stock issued for completed acquisitions	6,514,286
Stock issued to officers as bonus	2,886,000
Stock sold	1,529,334
Exercise of warrants	1,000,000
Stock issued for third-party services	829,814
Stock issued to branch owners	141,121
Stock issued to directors	110,967
Stock issued to employees	105,000
Stock cancelled	(157,895)
Balance at November 16, 2011	**25,900,921**
Warrants issued to officers as bonus	4,000,000
Warrants issued to accredited investors	529,334
Stock to be issued later in fiscal 2012	271,000
Stock to be issued for pending acquisition	1,714,286
Pro Forma Balance at November 16, 2011	**32,415,541**

RECENT RESULTS

On November 18, 2011, the Company reported its 2012 fiscal first quarter results for the period ending September 30, 2011. For the quarter, PSMH recorded a net loss of $1.1 million, or a diluted loss per share of $0.05. This compares to a $48,000 net loss, or breakeven EPS, in the prior-year quarter. Importantly, the two periods are not strictly comparable. The first quarter of fiscal 2012 includes the results of operations for UCMC, two companies acquired on July 1, 2011 (Brookside Mortgage L.L.C. and Founders Mortgage, L.L.C.), and one company acquired on August 8, 2011 (Fidelity Mortgage Inc.). The first quarter of fiscal 2011 includes no acquisitions.

Revenues increased 86% year over year to $2.2 million in the first fiscal quarter from $1.2 million in the year-ago quarter. This primarily reflected increased mortgage production related to acquisitions, which advanced 46% to $55.5 million from $37.9 million in last year's first quarter.

As to expenses, total operating expenses surged 170% year over year to $3.3 million for the September 2011 quarter from $1.2 million in the prior-year quarter. This primarily reflected an 831% jump in SG&A expense to $2.5 million, largely related to a $1.4 million rise in compensation from increased headcount, which expanded to 120 employees from 4 employees a year ago. Other notable cost increases stemmed from larger marketing costs (up $147,000) and higher rent expense (up $75,000).

Partially offsetting these items was a $186,000, or 20%, drop in brokerage commissions to $746,000, due to a restructuring of the commission payment structure.

In addition, depreciation and amortization climbed $77,000, or 443%, to $94,000, primarily reflecting amortization of customer lists related to recent acquisitions, as well as amortization stemming from the NWBO license agreement. The customer lists of $1.5 million are to be amortized over 60 months, with annual amortization of $312,000 expected in fiscal 2012, $324,000 in fiscal 2013-14, $285,000 in fiscal 2015-16, and $13,000 in fiscal 2017. The NWBO license of $825,000 is being amortized over 14 years, with annual amortization expense of $59,000 through fiscal 2019 and $47,000 in fiscal 2020.

The Company had a tax loss carryforward of $9.9 million at June 30, 2011, and paid no income taxes in the fiscal first quarter of 2012.

MAJOR RISKS

- Competitors are larger and have greater financial resources than does PSM Holdings. Competitors in the mortgage loan market include JPMorgan Chase Bank, N.A., Wells Fargo & Company, Bank of America Corporation, and US Bank Corporation. This is somewhat offset by the significant reduction in these competitors' retail presence for originating mortgage loans. Moreover, larger competitors are not able to respond as quickly as PSMH to customer requests.

- PSMH is in the initial stages of its acquisition strategy and new business model, and no solid data has yet been released. In fact, the first quarter for which initial financial data is available is for the 2012 fiscal first quarter ending September 30, 2011. Moreover, it will be several more quarters until there is sufficient data to gauge the success of PSMH's new business model.

- The rapid pace of PSMH's acquisition program has strained resources. Though PSMH has hired additional personnel to oversee growth and invested in new technology to manage growth, there could be some negative surprises in the future.

- The weak state of the US economy in general and the real estate market in particular could hurt operations at some point in the future, though this has not occurred to date. Although there has been a contraction in residential real estate sales and refinancings over the last few years, consolidation in the mortgage banking and brokerage industry has mitigated this to some extent (industry sources suggest that 40% of mortgage banking firms and 80% of mortgage brokerage companies have left the industry). In other words, while the total pie is getting smaller, the market share for surviving mortgage companies is actually growing.

- A significant jump in interest rates, currently at rock-bottom lows, could have a material negative impact mortgage loan demand for future residential real estate sales and refinancings.

- PSMH's ability to generate additional loan originations and related revenue is limited by the size of its warehouse credit lines. While a large amount of excess capacity exists at present, this may not always be the case.

- PSMH bears the risk of default loss on all mortgage loans originated until they are sold to third-party lenders.

- PSMH has issued shares to make acquisitions and for other corporate purposes and will continue to do so in the near future.

- PSMH shares are designated as “penny stock” under SEC Rule 3a51-1, and subject to the restrictions imposed upon broker-dealers for trading in these shares, including the duty to disclose to investors the risks inherent in penny stocks and to determine that the investment is suitable for the purchaser. These restrictions reduce liquidity in PSMH shares.

- Of the 25.9 million of PSMH shares outstanding at present, only 2-3 million shares are not owned by insiders, thereby limiting the amount of float on the Company’s common stock.

MANAGEMENT AND DIRECTORS

Below is a list of top management and directors of PSM Holdings, Inc. as contained in the fiscal 2011 Form 10-K and a recent investor relations presentation.

Ron Hanna Mr. Hanna has served as PSMH’s CEO and President since February 23, 2011. He also served as PSMH’s Executive Vice-President from May 2005 through February 23, 2011. He has been President & CEO of Summit Resource Services, Inc. since 1998. This company is independently owned and operated by Mr. Hanna and operated a network office of PSMI from 1998 to 2006. From 1990 until 1998, he owned and operated a private medical practice.

Jeffrey R. Smith Mr. Smith has served as PSMH’s Executive Vice-President since February 23, 2011. He served as PSMH’s President & CEO from May 2005 through February 23, 2011. He has served as a director of PrimeSource Mortgage, Inc. since 1998, and served as President & CEO of this entity from 1998 through February 2011. He has served as President of United Community Mortgage Corporation since March 2011.

Douglas F. Smith Mr. Smith has been employed by ConocoPhillips in the audit department since April 15, 2009; as benefits and payroll accounting director from 2007 to April 2009; as fixed asset accounting director from 2002 to 2007; as investment accounting and disclosures director from 2001 to 2002; and as external reporting specialist from 2000 to 2001. ConocoPhillips is a public company involved in the oil and gas industry.

Matt Lamoreux Mr. Lamoreux has been President of Lamoreux Inc., a mortgage brokerage firm, since August 2006. He was been employed as a loan officer for JHS Inc, a mortgage lending firm, from October 2002 until July 2006.

James C. Miller Mr. Miller is the Executive Vice President of American Southwest Mortgage Corp. (AMSW) where he also well serves on the Board of Directors and as Secretary. He has been in the mortgage industry since the early 1990s when he started as a mortgage loan officer at American Mortgage and Investment Company (AMICO) where, after two years, was promoted to an Account Executive for the wholesale division of AMICO. Since January of 1998, Mr. Miller and his partner Richard Carrington have owned a management company CBB, Inc. (CBB) that currently has a contract to operate and manage Spirit Bank of Tulsa Oklahoma’s (Spirit Bank) Wholesale and Correspondent mortgage subsidiary, AMSW. Activities include marketing and originating residential mortgage loans for sale to the secondary market by promoting FHA, VA, USDA rural development, ONAP Section 184, and conventional loan programs through third party originators (community banks, mortgage bankers, and mortgage brokers). In addition, AMSW offers price protection, underwriting, closing functions, insuring, and shipping services to its customer base. Mr. Miller was also a past President of Oklahoma Mortgage Bankers Association from 2003 to 2004 and an Advisory Committee member of Oklahoma Housing Trust Fund during 1998.

Edward Kenmure III Mr. Kenmure has been a part of the mortgage banking industry since 1984. From 1984 to 1989, he was employed by Sun Mortgage where he went from processor to VP of Operations in four months. From 1989 to 1995, he was employed by Mortgage Unlimited as the Director of Operations and Sales, where he took a two-person operation and grew the business to 65 people in three years. From 1995 to 1998, he was employed by Community Home Mortgage as the Executive VP, NJ Division. Mr. Kenmure founded CenturyBanc Mortgage Corporation in 2004, a mortgage brokerage firm with multiple branch offices in several states. Mr. Kenmure founded United Community Mortgage Corporation (UCMC) in 2004, a subsidiary of the Company that operates three branch operations. Mr. Kenmure is a graduate of New Jersey City University, B.S. (Marketing/Public Relations, 1984).

Greg Mahaney Mr. Mahaney has been a director of the Company since July 2011. From January 2001 to June 2011, Mr. Mahaney was a managing partner of Brookside Mortgage, LLC, an Oklahoma company specializing in mortgage origination, where he was responsible for operations management and origination. On July 1, 2011, Brookside Mortgage was purchased by PrimeSource Mortgage, Inc. Mr. Mahaney is a licensed mortgage originator in the State of Oklahoma. Mr. Mahaney is a graduate of Oklahoma State University with a Bachelor's degree in Human Resources.

Richard Roque Mr. Roque serves as the Senior Vice President of Operations of PrimeSource Mortgage, Inc. (PSMI) since joining PSMI in 2011. Former President, Banking & Business Development of Menlo Company, a private consulting firm for mortgage brokerage, banking, and depository institutions, and one of the largest providers of national mortgage market and channel origination trends in the U.S. Mr. Roque has a focused background in consumer awareness initiatives and leveraging technologies to assist compliance and loan product awareness. Prior to joining Menlo, Mr. Roque served as Head of National Accounts Management for Calyx Software, whose clients represented over 70% of all non-depository originated loans utilizing the Calyx platform. Prior to joining Calyx, Richard served a National Director of Business Development & Marketing for PushMX Software, a lending technology, compliance, and workflow solution company. Prior to joining PushMX, Richard held a variety of business development and operational roles. Richard obtained his B.S. in electrical engineering from the University of Steubenville, OH, his M.S. in business management from the University of Saint Thomas, St. Paul, MN and is a Doctorate in Education (Ed. D) candidate at American International College, Springfield University.

Samuel B. Morelli, CMB Mr. Morelli serves as a Senior Vice President of PrimeSource Mortgage, Inc. (PSMI) since joining PSMI in 2011. A seasoned mortgage industry executive with over 35 years of experience, Mr. Morelli was head of the national retail branch network and national wholesale lending operations of Eagle National Bank. Prior to joining Eagle, Mr. Morelli was President and Chief Operating Officer of Sunset Mortgage Co., L.P., where he managed the national 300-branch retail network and the national wholesale lending operations. Prior to joining Sunset, Mr. Morelli was an Executive Vice President of Patriot Lending Services, a regional Vice President at Patriot Mortgage Co., L.P., a Vice President of the mortgage banking group of Equibank, and was an Executive Vice President at both Springfield Federal Savings and Loan Association and United Savings Association. Mr. Morelli holds the distinguished Certified Mortgage Banker (CMB) designation. Mr. Morelli attended Temple University and is a graduate of the Institute of Financial Education School for Executive Development at the University of Connecticut. Mr. Morelli is a member of the Advisory Council for the American Association of Residential Mortgage Regulators (AARMR) and the Mortgage Bankers Association (MBA) at both the regional and national levels. Mr. Morelli has served as past Chairman of the MBA of Pennsylvania, past Chairman of the Mortgage Banking Action Alliance, past President of the MBA of greater Philadelphia, and past member of the National MBA's Residential Board of Governors (RESBOG), as well as its Board of Directors. Mr. Morelli currently serves on various MBA task forces dealing with a multitude of real estate finance industry issues and is an instructor for Campus MBA's School of Mortgage Banking.

OWNERSHIP

Management and directors own approximately 59% of total outstanding shares and warrants at October 12, 2011. According to PSMH estimates, there are only about 2-3 million shares that are available for float.

Name	Position	# of Shares Owned at 10/12/11*	Percentage of Shares Owned at 10/12/11*
Jeffrey R. Smith	Pres, CEO--PSMI	5,325,792	18.40%
Ron Hanna	Pres, CEO, CFO--PSMH	3,873,451	13.38%
Edward Kenmure	Employee and Director	2,392,858	8.27%
James Pulsipher	Employee	1,567,210	5.41%
Randy Stevens	Employee	1,285,714	4.44%
James C. Miller	Director	1,000,000	3.45%
Greg Mahaney	Employee and Director	550,834	1.90%
Jared Peterson	Employee	418,504	1.45%
Peter Gubaney	Employee	250,000	0.86%
Michael Thompson	Employee	249,166	0.86%
Matt Lamoreux	Director	105,272	0.36%
Douglas F. Smith	Director	70,100	0.24%
Total Insiders		**17,088,901**	**59.03%**
Total Shares Outstanding*		**28,628,104**	**100.00%**

*Includes 4.5 million warrants

Sources: PSMH 2011 10-K and 8-Ks

PROJECTIONS

Our annual and quarterly projections are shown on pages 19 and 20, respectively. We are estimating diluted earnings per share of $0.25 in fiscal 2012 and of $0.50 in fiscal 2013. Key projection highlights include:

- Our projections are based only upon completed acquisitions where financial results have been disclosed, including UCMC as of March 15, 2011, Brookside and Founders beginning on July 1, 2011, Fidelity beginning on August 1, 2011, and IMP beginning on November 1, 2011, as well as new business from the Costco MSP, beginning on December 1, 2011. Going forward, we will be revising our projections as additional acquisitions are completed and related financial information is disclosed.

- We note that PSMH expects to be generating monthly loan production under the new business model of $100 million by the end of the third quarter of 2012 and of $200 million by the end of the fourth quarter of 2012, including originations from acquisitions that have not yet been completed or disclosed. Our projections are based upon completed acquisitions only.

- Our projections show non-Costco mortgage loan origination loan volume ramping up at roughly 5% per quarter beginning in 2012's fiscal third quarter and lasting throughout the remainder of the forecast period.

- Our projections show that Costco mortgage loan originations will build from $120 million in origination volume per quarter in 2012's third quarter to $300 million per quarter beginning in 2013's first fiscal quarter.

- We have assumed that interest rates will remain at very low levels throughout the forecast period.

- We have assumed that the 4.5 million warrants will not be exercised during the forecast period. However, we have included the warrants in the calculation of diluted earnings per share per applicable accounting principles.

- Because of the $9.9 million tax loss carryforward, we have shown no income tax expense until 2013 when we use a 38% effective tax rate.

- No dividend payments over the forecast period.

VALUATION

PSMH is in the midst of a fundamental transformation of its business model, which is likely to propel above-average earnings growth over the near-medium term. Nevertheless, it is still an untested model. The initial quarter for which financial data under the new business model was available was the 2012 fiscal first quarter ending September 30, 2011 when PSMH posted a net loss of $1.1 million. Moreover, it will be several more quarters until there is sufficient data to gauge the success of PSMH's new business model.

Our diluted EPS estimates for the June 30 fiscal years are $0.25 for fiscal 2012 and $0.50 for fiscal 2013, though these could prove wide of the mark, given that the Company's situation is changing so rapidly.

On a Price/Book Value basis, PSMH is valued at 3.5X, well in excess of the industry median for companies in the Zacks small-cap financial services index of 1.2X. Applying the 1.2X industry ratio to estimated book value twelve months out results in a target price of roughly $1.25.

Turning to the Price/Earnings valuation measure, PSMH is trading at 2.4X for fiscal 2012 and 1.2X for fiscal 2013, well below the Zacks small-cap financial services index medians of 9.6X and 7.8X, respectively. Applying the 7.8X industry P/E ratio to our 2013 EPS estimate results in a target price of about $4.00.

Using a two-stage discounted cash flow model results in a target price of approximately $3.00 after a margin of safety discount.

In conclusion, using three different valuation metrics, we arrive at a target price range of $1.25 on the low end to $4.00 on the high end, and a middle value of $3.00, which we believe best represents prospects for PSMH's share price twelve months out. This compares to PSMH's current stock price of $0.60.

Accordingly, we are recommending an outperform on PSMH shares with a twelve-month target price of $3.00, representing a total return of 400%.

Industry Comparables- Small-cap Financial Services

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2012E	2013E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
PSM Holdings	**(16.7)**	**N/A**	**2.4**	**1.2**	**Neg**	**3.5**	**Neg**	**Neg**	**Neg**	**Neg**	**-----**
S&P 500	**(0.0)**	**17.1**	**13.0**	**12.2**	**18.0**	**3.8**	**25.8**	**N/A**	**9.53**	**N/A**	**2.1**
Median	**1.6**	**11.1**	**9.6**	**7.8**	**11.7**	**1.2**	**11.7**	**13.81**	**4.35**	**5.0**	**-----**
Average	3.5	12.6	10.5	8.4	15.1	2.0	14.1	7.43	6.19	3.4	1.7
High	68.0	34.1	19.6	14.0	64.7	7.2	41.3	31.20	31.69	12.5	12.9
Low	(58.5)	5.0	6.2	2.3	6.7	0.4	(34.4)	(66.56)	(3.28)	(14.1)	-----

*Trailing twelve months

PSM Holdings, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	06/07	06/08	06/09	06/10	06/11	06/12 E	06/13 E
Revenues	2.893	2.539	3.252	3.833	3.863	28.648	60.313
Brokerage Commissions	2.405	2.167	2.943	3.297	3.045	3.100	3.260
SG&A	1.025	0.551	0.909	4.852	2.852	17.605	31.735
Depreciation & Amortization	0.072	0.071	0.070	0.070	0.081	0.408	0.420
Wages	0.372	0.316	-----	-----	-----	-----	-----
Taxes & Other Income (Expense)	0.023	0.017	(0.004)	0.021	0.038	0.002	(9.461)
Zacks Adjusted Income before NRI	(0.958)	(0.549)	(0.674)	(4.365)	(2.077)	7.537	15.437
GAAP Net Income	(0.958)	(0.704)	(0.674)	(4.365)	(2.077)	7.537	15.437
Diluted EPS before NRI	(0.08)	(0.04)	(0.05)	(0.33)	(0.15)	0.25	0.50
Reported EPS	(0.08)	(0.05)	(0.05)	(0.33)	(0.15)	0.25	0.50
Dividends Per Share	-----	-----	-----	-----	-----	-----	-----
Balance Sheet							
Cash & Marketable Securities	0.202	0.071	0.125	0.106	0.021	8.786	24.595
Receivables	0.030	0.075	0.090	0.154	0.041	0.513	0.623
Other Current Assets	0.000	-----	-----	0.060	0.196	0.110	0.134
Total Current Assets	0.232	0.146	0.215	0.320	0.258	9.409	25.352
Net Property/Plant/Equipment	0.043	0.036	0.028	0.017	0.025	0.200	0.200
Loans and Notes Receivable	0.175	0.100	0.094	0.097	0.601	0.600	0.600
Intangibles	0.754	0.695	0.636	0.577	1.596	3.043	2.623
Other Assets	-----	-----	-----	-----	0.009	0.110	0.134
Total Assets	1.204	0.977	0.973	1.011	2.489	13.362	28.909
Short-term Debt	-----	-----	-----	-----	-----	-----	-----
Accrued Stock Payable	-----	-----	-----	-----	0.778	-----	-----
Other Payables and Accruals	0.113	0.122	0.106	0.345	0.174	0.513	0.623
Total Current Liabilities	0.113	0.122	0.106	0.345	0.952	0.513	0.623
Total Long-Term Debt	-----	0.080	0.110	0.120	0.120	-----	-----
Other Liabilities	-----	-----	-----	-----	-----	-----	-----
Preferred Stock	-----	-----	-----	-----	-----	-----	-----
Common Shareholders' Equity	1.091	0.775	0.757	0.546	1.417	12.849	28.286

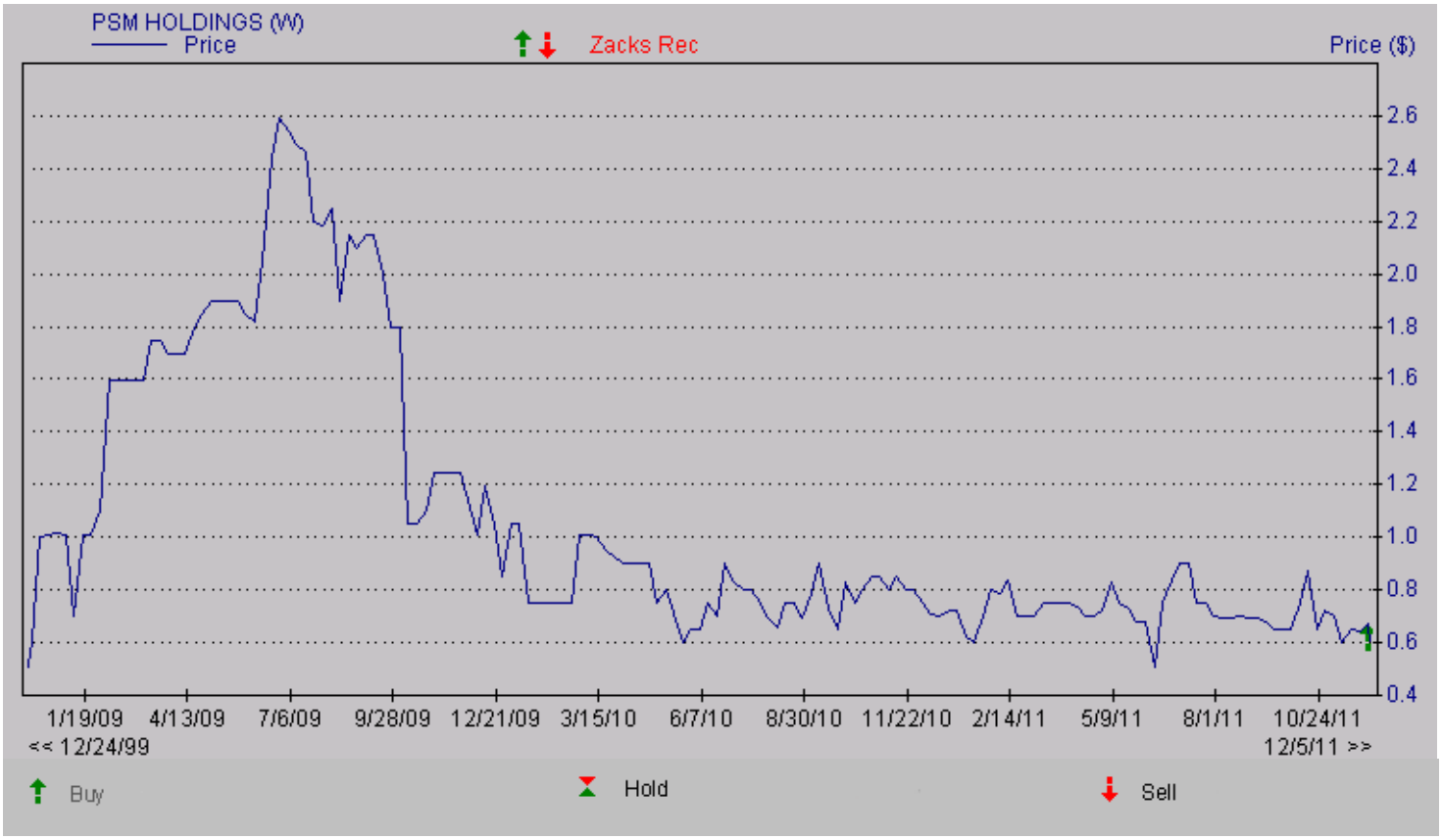
PSM Holdings, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
	Q1 A	**Q2 A**	**Q3 A**	**Q4 A**	**Q1A**	**Q2E**	**Q3E**	**Q4E**
Revenues	1.171	1.243	0.751	0.698	2.182	5.470	8.624	12.372
Brokerage Commissions	0.946	0.974	0.571	0.553	0.760	0.770	0.780	0.790
SG&A	0.264	0.229	1.016	1.343	2.462	4.072	4.790	6.281
Depreciation & Amortization	0.017	0.017	0.017	0.030	0.094	0.105	0.105	0.105
Wages	-----	-----	-----	-----	-----	-----	-----	-----
Taxes & Other Income (Expense)	0.008	0.007	0.016	0.005	0.003	-----	-----	-----
Zacks Adjusted Income before NRI	(0.048)	0.030	(0.837)	(1.223)	(1.131)	0.523	2.949	5.196
GAAP Net Income	(0.048)	0.030	(0.837)	(1.223)	(1.131)	0.523	2.949	5.196
Diluted EPS before NRI	(0.00)	0.00	(0.06)	(0.09)	(0.05)	0.02	0.10	0.17
Reported EPS	(0.00)	0.00	(0.06)	(0.09)	(0.05)	0.02	0.10	0.17
Dividends Per Share	-----	-----	-----	-----	-----	-----	-----	-----
Balance Sheet								
Cash & Marketable Securities	0.090	0.123	0.465	0.021	0.470	0.451	3.495	8.786
Receivables	0.077	0.065	0.054	0.041	0.389	0.420	0.464	0.513
Other Current Assets	0.008	0.001	0.001	0.196	0.097	0.100	0.105	0.110
Total Current Assets	0.175	0.189	0.520	0.258	0.956	0.971	4.064	9.409
Net Property/Plant/Equipment	0.014	0.014	0.027	0.025	0.170	0.200	0.200	0.200
Loans and Notes Receivable	0.091	0.091	0.639	0.601	0.600	0.600	0.600	0.600
Intangibles	0.563	0.546	1.620	1.596	3.358	3.253	3.148	3.043
Other Assets	-----	-----	0.008	0.009	0.017	0.100	0.104	0.110
Total Assets	0.843	0.840	2.814	2.489	5.101	5.124	8.116	13.362
Short-term Debt	-----	-----	-----	-----	-----	-----	-----	-----
Accrued Stock Payable	-----	-----	0.500	0.778	0.386	-----	-----	-----
Other Payables and Accruals	0.217	0.162	0.201	0.174	0.414	0.420	0.464	0.513
Total Current Liabilities	0.217	0.162	0.701	0.952	0.800	0.420	0.464	0.513
Total Long-Term Debt	0.100	0.100	0.100	0.120	0.120	-----	-----	-----
Other Liabilities	-----	-----	-----	-----	-----	-----	-----	-----
Preferred Stock	-----	-----	-----	-----	-----	-----	-----	-----
Common Shareholders' Equity	0.526	0.578	2.013	1.417	4.181	4.704	7.652	12.849

HISTORICAL ZACKS RECOMMENDATIONS



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