Zacks Small-Cap Research

January 17, 2012
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PSM Holdings, Inc.

(PSMH-OTCBB)

PSMH: Update on Iowa Mortgage Professionals, Inc. Acquisition - Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/06/2011
Current Price (01/13/12)	$0.74
Twelve- Month Target Price	**$3.00**

OUTLOOK

We are maintaining our Outperform recommendation and 12-month target price of $3.00 on PSM Holdings, Inc. (PSMH). 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	**$0.51**
One-Year Return (%)	**23.33**
Beta	**0.24**
Average Daily Volume (sh)	**3,940**
Shares Outstanding (mil)	**26**
Market Capitalization ($mil)	**$19**
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	**3.0**
P/E using 2013 Estimate	**1.5**
Zacks Rank	**N/A**

Risk Level	**High**
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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RECENT NEWS

On January 13, 2012, PSMH released pro forma financial statements for its acquisition of Iowa Mortgage Professionals, Inc. (IMP), which closed on November 1, 2011. Iowa Mortgage Professionals, Inc. is a mortgage banking and brokerage company based in Des Moines, Iowa, and had annual loan production of $164 million in 2010. The principal owner of IMP, Mr. Randy Stevens, 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. Further details of this transaction, as well as those for four other prior acquisitions, are shown in the section entitled Acquisitions.

In other news, PSMH announced the resignation of Matt Lamoreux as director of the Company on January 3, 2012 and on December 29, 2011, the change of domicile for the Company to the State of Delaware from the State of Nevada.

PSMH also made changes to its stock incentive plan. On December 12, 2011, shareholders approved the 2012 Stock Incentive Plan (2012 Plan) for the issuance of up to 6,000,000 shares of common stock with a $0.001 par value per share that became effective on January 1, 2012 and extends for 10 years. All of the Company's employees, officers and directors, as well as consultants and advisors to the Company are eligible to be granted awards under the 2012 Plan. The previous plan, the 2002 Stock Option/Stock Issuance Plan under which 3,250,000 shares had been authorized and 3,111,194 total shares had been issued, expired on December 31, 2011. As of the expiration date, 400,000 unvested restricted shares were outstanding under the 2002 Plan and will continue to have full force and effect.

We have made no changes to our EPS estimates as a result of the 2012 Stock Incentive Plan or the release of the pro forma financial statements for Iowa Mortgage Professionals, Inc. We had already incorporated the impact of the IMP acquisition on financial results in our earlier estimates. Therefore, we are maintaining our diluted earnings per share estimates of $0.25 in fiscal 2012 (June 30) and of $0.50 in fiscal 2013. Details of our projections are shown at the back of the report.

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 June 30, 2012.

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.

ACQUISITIONS

PSMH has been quite successful in its acquisition strategy, acquiring five companies since March 15, 2011, with one 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.

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	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								

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 $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, 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.

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.

PROJECTIONS

Our annual and quarterly projections are shown on pages 10 and 11, 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 4.4X, well in excess of the industry median for companies in the Zacks small-cap financial services index of 1.4X. Applying the 1.4X 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 3.0X for fiscal 2012 and 1.5X for fiscal 2013, well below the Zacks small-cap financial services index medians of 8.7X and 7.0X, respectively. Applying the 7.0X industry P/E ratio to our 2013 EPS estimate results in a target price of about $3.50.

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 $3.50 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 $0.74.

Accordingly, we are recommending an outperform on PSMH shares with a twelve-month target price of $3.00, representing a total return of just over 300%.

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	**(1.3)**		**3.0**	**1.5**	**Neg**	**4.4**	**Neg**	**Neg**	**Neg**	**Neg**	**-----**
S&P 500	**2.5**	**13.6**	**12.6**	**11.1**	**17.3**	**3.9**	**22.9**		**9.26**		**2.3**
Median	**0.6**	**10.4**	**8.7**	**7.0**	**11.5**	**1.4**	**10.9**	**14.61**	**4.35**	**5.3**	**-----**
Average	2.0	13.0	8.5	7.4	15.1	2.0	0.5	8.67	(2.64)	5.0	1.7
High	17.8	35.5	14.5	18.0	64.7	7.6	41.3	40.62	31.69	31.6	11.3
Low	(8.5)	4.2	2.5	1.5	6.6	0.4	(245.0)	(71.15)	(173.21)	(15.3)	-----

*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

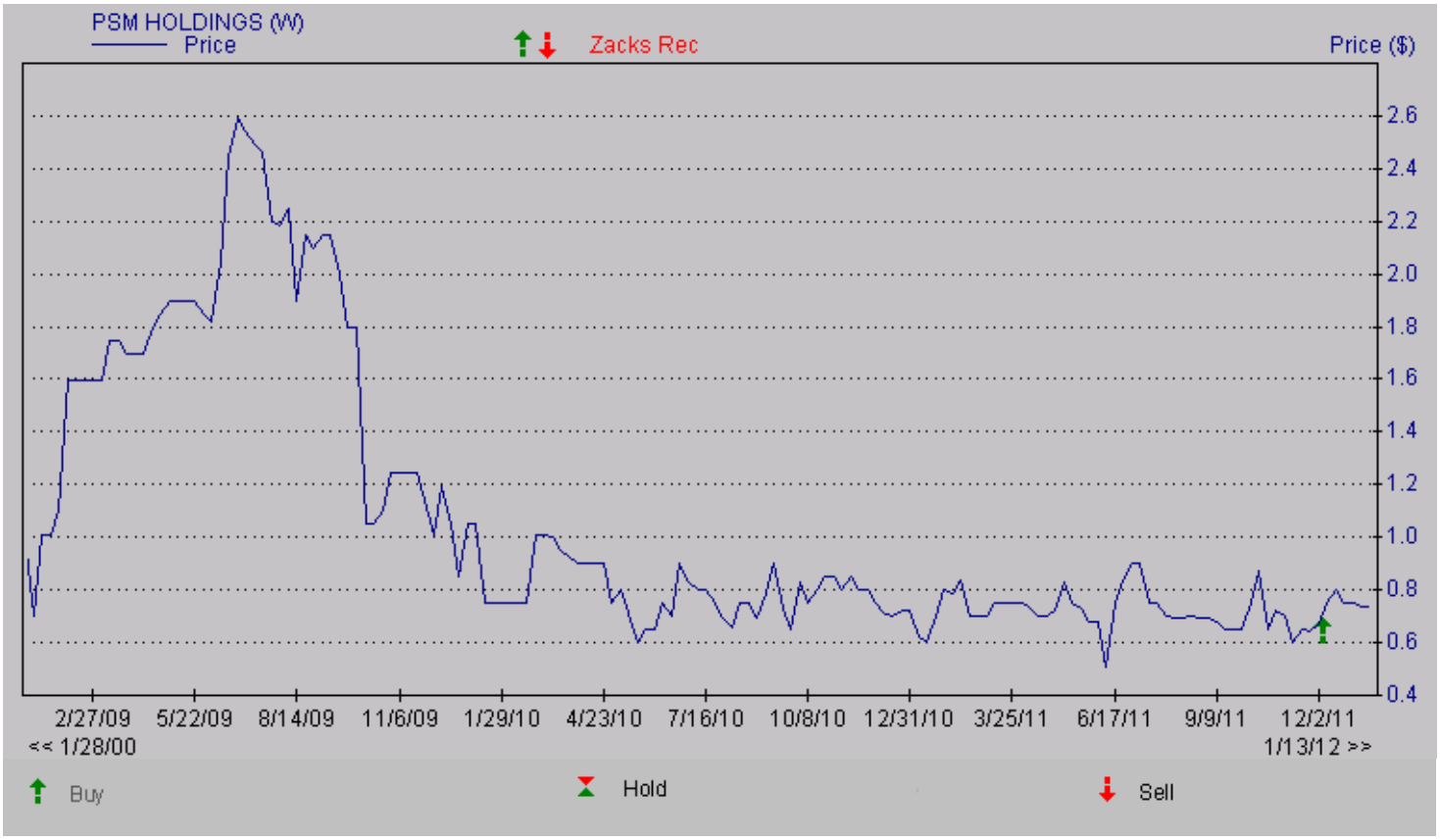
PSM Holdings, Inc.

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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