



**Bofi Holding, Inc.**

**BUY**

(BOFI - \$16.74)

Price Target: \$35

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**SEC FOIA Request Reveals No SEC Investigation Into BOFI; Recent Pressure On Stock Creates Buying Opportunity**

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**OUR CALL**

We recently sent a Freedom of Information Act (FOIA) request to the SEC for any correspondence between the SEC and BOFI or any of its subsidiaries. There was only one letter dated May 13, 2015, a typical SEC Comment Letter reviewing the June 30, 2014 10-K. All of these items (detailed below) appear to be ordinary course of business and resolved by the Company's Response letter dated May 27, 2015. We note that since the response letter, there have been no additional letters from the SEC requesting additional information or disclosures. Copies of the letters are available upon request.

Our research into the SEC correspondence supports BOFI's previous statements that there are no investigations into the Company.

We specifically requested whether there were any correspondence by the SEC or the Company for matters where confidential treatment was requested. The SEC responded "We found no other letters responsive to your request." We notice that they did not deny our request, which if they did, the SEC is supposed to state the reason for the decision.

We would not be surprised to see another typical comment letter review of the Fiscal June 30, 2015 10K when the SEC is finished with its typical review process.

**Review of the SEC comment letter:**

The SEC had 5 comments that requested additional disclosure or information. Again these appear resolved.

1& 2: The first two requested information about legal proceedings that were not disclosed. Bofi responded that they believed the legal case was not material and given the case was settled with prejudice without any payment or restrictions, they were correct.

3: The SEC requested Bofi change the word "core" to "adjusted" in future earnings results. The company agreed.

4: The SEC requested disclosure of shareholders that owned more than 5%. The Company agreed.

5: The SEC requested additional information or disclosure of its relationship with Westlake Financial Services as a distribution partner and its Chairman as a shareholder. Bofi replied that under Regulation S-K the business relationship was immaterial as it is less than \$120,000 and did not require disclosure.

As we have said since our initiation, we expect a clean audit and no new news on the regulatory front when Bofi reports its June 2016 fiscal year end results on August 2<sup>nd</sup>. We believe the recent weakness creates an excellent entry point to buy the stock ahead of the results.



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## STOCK OPPORTUNITY

We have a BUY rating on BOFI and with a \$35 price target, based on a forward multiple of 15.2x 2017 calendar EPS estimate of \$2.31. That valuation one year out is similar to where peers are trading today on 2016 EPS estimates. We believe this multiple is appropriate given Bofi's high growth and the branchless model which has a significant cost advantage to peers and delivers a much higher ROE.

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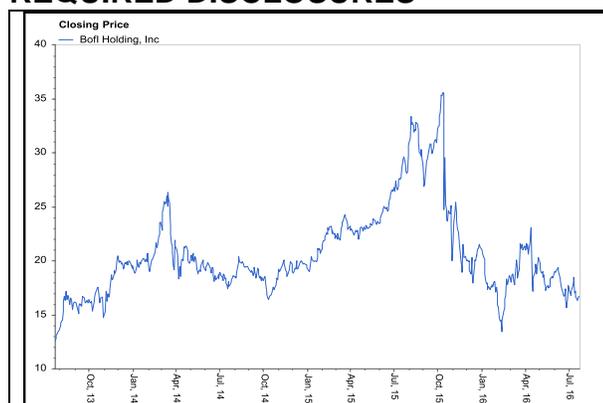
## RISKS

We believe an investment in BOFI involves the following risks:

- **Legal:** The lawsuit filed could prove more adverse than expected and additional lawsuits could be filed.
- **Regulatory:** Capital requirements could be changed. The CFPB (Consumer Financial Protection Bureau), FDIC and OCC are always a risk in banking. Fannie and Freddie have not yet seen how they will be restructured post being put into conservatorship. BOFI sells a material amount of its mortgage loans to Fannie Mae and/or Freddie Mac. If changes are made that impact their ability to purchase loans, it would likely have a material impact on BOFI.
- **Interest Rates:** A rapid rise in interest rates could negatively impact BOFI. Its deposits could reprice upwards faster than its loans and result in compressing its net interest margin. A flattening yield curve could also pressure BOFI's net interest margins.
- **Macro-Economic Slowdown:** A significant economic downturn in the U.S. economy could result in an increase in non-performing loans as the result of higher unemployment, lower borrower incomes, or a decline in real estate values. BOFI is especially sensitive to the California economy given its concentrations of mortgages in the state. At June 30, 2015, approximately 66.4% of the mortgage portfolio was secured by real estate located in California.
- **Competition:** BOFI faces strong competition from thousands of existing banks, other Internet focused financial institutions, internet based FinTech companies, and existing companies expanding into competing products. BOFI will need to continue to invest in innovation for product offerings, marketing, branding, distribution channels, and customer experiences on ease of use. Increasing competition or changes in BOFI's operations that impact its lower cost approach could harm its competitiveness.
- **Underwriting:** BOFI has expanded into a number of loan categories where it has a limited experience underwriting across business cycles. Its underwriting could fail to predict losses as expected and result in adverse credit performance and negatively impact earnings results.
- **Privacy:** BOFI collects, uses, and retains a significant amount of personal data for consumers and businesses. With numerous different states and federal regulations it is possible that BOFI may fail to satisfy a regulator(s) that it is complying with a requirement. Failure or perceived failure could harm its reputation.



## REQUIRED DISCLOSURES



Source: FactSet

Initiate: April 7, 2016 – Rating: Buy – Price Target: \$35.00

### Ratings definitions:

**Buy** rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

### Fundamental trend definitions:

**Improving** means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

### Ratings Distribution (6/30/2016)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	79%	12%
Hold	21%	4%
Sell	0%	0%
Total	100%	11%

**Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.**

CHLM makes a market in this security.

CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm’s investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm’s business, including investment banking.

## OTHER DISCLOSURES

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## REGULATION AC CERTIFICATION

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