

2007 LET THE PARTY BEGIN

by [Steve Brown](#)

In just a few short days, at 12:01am Sunday night, we will all bid farewell to 2006 and usher in 2007. Call us old school, but we still enjoy the tradition and symbolism of the changing of the year. Before we look forward, in order to fill space, we will take a brief look back at 2006. This "Year of the Dog" in the Chinese calendar was interesting, as economic growth in China (and India) reached the level of single most significant economic development. In addition to the obvious and lest we all forget, other crazy or notable things that happened during the year included: Ben Bernanke took over for Greenspan as Fed Chair; VP Dick Cheney accidentally shot his friend with a shotgun; UAL Corp emerged from the longest bankruptcy filing in history; the Pittsburgh Steelers won Super Bowl XL; The St. Louis Cardinals won the World Series; North Korea became nuclear active; global warming became popular to discuss; Crash won Best Picture of the year; 500k people protested a proposed federal crackdown on illegal immigration in Los Angeles; the country fought the 3rd year of the Iraq War; Warren Buffett donated over \$30B to the Bill & Melinda Gates Foundation; Floyd Landis won and then lost the Tour de France after failing a doping test; tennis star Andre Agassi retired; Crocodile Hunter Steve Irwin died in an accident; Spinach contaminated with E. coli bacteria was deadly; the giant hedge fund Amaranth went into reorganization after losing more than \$6B in wrong way natural gas trades; BofA Purchased U.S. Trust; The Dow Jones Index reached an all time high; Google bought YouTube for \$1.65B; our country's population reached 300mm; Jeffrey Skilling was sentenced to a tad over 24 years in federal prison on charges related to his role in the collapse of Enron; the Democrats won control of both houses of Congress for the first time since 1994; Defense Secretary Donald Rumsfeld resigned; the Godfather of Soul James Brown died; the 38th President of the U.S. Gerald Ford passes; Edmund Strother Phelps won the Nobel Prize for economics (renowned for his work on the idea of the Golden Rule savings rate, which deals with how much should be spent today versus how much should be saved for future generations and the theory of the natural rate of unemployment); banks saw their margins compress, as the FOMC rate hikes caught up with them; large national banks came "down market" into the small business arena of independent banks after large corporate customers repeatedly spurned loan business; the call report was modified; CRE exposures became significantly more important; the credit cycle officially turned; and housing collapsed. Through it all though, positive attitudes and persistence prevailed and we continued to show the world why America is such a great country. While we don't yet know what 2007 will deliver, let the party begin. Thank you for all of your support this year and Happy New Year to all of our readers.

BANK NEWS

Loan Disclosures

Despite recent urging for change, the OCC went on record that bank mortgage disclosures are still falling short in letting investors know about potential payment variability (such as with teaser rates) in a timely manner (before the loan is originated).

FHLB Ratings

The System announced that it will create a new exam rating system, based on a score of 1 to 4, in order to better evaluate each FHLB bank on areas such as governance, credit, operational risk and market risk. We are lost and seek more information, as there is already a 4-tier rating system in place

("Satisfactory, Fair, Marginal and Unsatisfactory"). The knock on the old rating system was not enough granularity and inconsistency, so what has changed?

Deposit Source

Banks trying to differentiate themselves in the market may want to consider that while stocks have historically provided strong returns, they have also gone significantly negative and destroyed value (-26% in 1974 and -35% in 1937). Given that there are 13k baby boomers turning 60 every year for the next 20 years, perhaps these potential clients want guaranteed certainty.

Competition

First Horizon Bank (the old First Tennessee Bank) said it has opened its 10th branch in Washington DC, as it continues to focus on capturing more business clients and expanding its geography. The bank now has 23 branches in DC and MD, with plans to open more in coming months. First Horizon Bank is now doing business in more than 500 offices across 46 states. The bank holding company recently reported that commercial loans had increased 30% and commercial construction climbed 83%.

US Mint

Because the price of copper, nickel and zinc are up, pennies and nickels are now worth more than their face value. For example, that 1 cent penny is now worth 1.16 cents. Despite the potential arbitrage opportunity, however, it is still illegal to melt pennies and nickels into their component metals.

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