

PEER REFLECTIONS

by [Steve Brown](#)

If a husband makes a statement when he is alone, is he wrong? The answer is no, as it takes a wife to actually hear the statement to tell him he is wrong. In a recent board retreat the issue was raised, what good is a bank peer group? Like a spouse, a well-designed peer group serves to reflect short comings in hopes of improvement. To our point, for a peer group to be of much use, banks should choose one that reflects not where a bank is, but where a bank wants to go. Choosing a group of banks in your geographic area or asset size is interesting and helps understand competitive forces, but does not reveal too much actionable information. Usually differences end up getting explained away, leaving only a feeling that a bank is either different or is under/over performing. The better methodology is to choose a set of 10 plus banks that have performance and composition attributes that are attractive. Start from your geography and asset size and work out and up, respectively, but don't be too concern with out of area banks as it is the performance attributes that are most important. Here at BIG, we often talk about "top performing banks" and the "best practices" at those banks. Our top performing bank peer group varies over time and contains banks that don't necessarily have the best attributes, but a combination of those characteristics over a sustained (5-year) period of time. One drill that we conduct for board retreats is to have members utilize our peer model and have them select their own group. In the exercise, board members not only decide on attributes, but are forced to rank them, resulting in a "value roadmap." The drill reveals how much more important current earnings are versus, say, earnings growth, asset quality or return on capital. This value roadmap allows management to make better decisions as options are evaluated based on the preferences of the board. In order to chart progress, a standard peer group is established with key metrics chosen and variances calculated. These variances are then tracked each quarter to alert the board and management of progress. When we put peer groups together for banks, we drill down, comparing items such as loan and deposit pricing, interest rate risk, diversification of earnings, operations and business model. Next month, we will be releasing our online peer group application that will allow intelligent peer group design as well as provide banks with a set of analytics that discloses opportunities for improvement. Look for more information next month, but in general, peer group comparisons should not be a validation, but should push a bank to do better and serve to focus management. As Henny Youngman used to say about marriage Â– if you come home to a person that gives you a little love, understanding and tenderness, it usually means you are in the wrong house.

BANK NEWS

Wells Earnings

Overcoming losses in their subprime unit, Wells Fargo posts 4% earnings growth driven by a jump in credit card related fees and material growth on its commercial side. Small business lending continued to be profitable and the Bank made strides in continuing to increase its cross-sell ratio resulting in a more profitable product sales mix.

US Bancorp

Earnings fell 2.2% due to higher loan write-offs and an increase in loan loss reserves.

Other Top 20 Earnings

State Street posted 3Q earnings up 10% and Regions climbed up 12%. Both entities had major acquisitions and so it is difficult to discern core bank operations.

Community Bank Earnings

While we will have a full wrap up later, the average community bank that has released so far shows that earnings are down 2% for 3Q.

Asset Sale

First Financial Bancorp (\$3.2B, OH) will sell its payment processing unit to Marshall & Ilsley-owned Metavante Corp for an undisclosed amount.

Countrywide Bank

The Bank announced it will utilize Virtual Hold Technology that will keep your place in a call center queue and then call you back when a representative is available. The technology should reduce call center headcount in an effort to increase efficiencies.

Credit Smarts

Many banks are planning to send employees out to local high schools this Thursday in order to teach students the do's and don'ts of credit. The push towards better financial management is organized around the ABA's National Get Smart About Credit Day.

Upbeat Economists

A recent WSJ poll found that economists were more optimistic about the economy from a month ago with just 34% forecasting a recession. Additionally, a whopping 76% of economists polled felt that the Fed's 50bp cut was appropriate, while 22% felt it was too aggressive. Finally, Fed Chair Bernanke received a score of 90 out 100, the highest mark he has received in the survey since his tenure began.

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