

THE TEACHINGS OF ED

by [Steve Brown](#)

Growing up we wanted to be like the former beekeeper that looked up to the mountains and thought what it would be like to climb them. After "knocking off" some 20 major peaks, Sir Edmund Hillary announced that he would climb Everest despite the failures of others. At 11:30am on the morning of May 29, 1953, Edmund Hillary and Tenzing Norgay reached the summit, 29,028 feet above sea level. Yesterday, the greatest explorer of the 20th century passed away at 88. In his honor, we focus in on 5 important things we apply to banking nearly every day.

The obvious lesson is courage. Hillary wrote prior to climbing Everest that he had no idea what would happen to a human life above 29k feet. All he knew was that the climbing parties before him never made it back alive. He went anyway.

Hillary was focused. At 24 he decided to climb the highest peak on earth. Despite being badly burnt in an accident, he never gave up. At 34 he achieved his dream. As his friend Jim Wilson said about him, "While we all have dreams-Ed has dreams, then he's got incredible drive and goes ahead and does it."

Hillary had humility. After hearing him speak in San Francisco, we asked a question calling him "Sir Hillary" in the process. He quickly corrected us and said, "Just Ed, please." He used his fame and fortune for philanthropic reasons. He went back to Nepal some 120 times to help build schools, raise money for health projects and increase awareness in the region.

Hillary always had a sense of humor. There are no pictures of Hillary on his first Everest ascent. The famous picture marking the occasion was of Norgay. When Hillary returned and the press asked him why Norgay was in the picture and not him, Hillary replied, "He [Norgay] had never taken a picture before, and the summit of Everest was hardly the place to show him how." Hillary would always choose climbers for his expeditions that had a good sense of humor, because "People who can make you laugh under dire circumstances are very valuable indeed in an expedition."

Finally, his most enduring quote was that "life isn't about conquering mountains, it is about conquering ourselves."

These are all solid lessons to keep in mind as bankers head into 2008. We will miss you Ed.

A BANKING MYSTERY

Can someone explain to us (other than the obvious), why banks are still running 5.00%+ deposit specials? Worse, most banks are still posting higher rates for longer maturities. Meanwhile, the forward curve shows rates should go down significantly from current levels. Brokered CD and FHLB rates are not only cheaper the longer the maturity, but they are significantly less than where many banks are raising money through special deposit promotions. As our Liability Coach, Greg Judge says "This story can only end in one way for banks and it's not nice." One would be hard pressed to find a better time than now to use wholesale money to protect your core deposit base, lower your cost of funds and make your liability structure less rate sensitive.

BANK NEWS

M&A

Bank of America will buy Countrywide Financial for \$4B. The move that adds 1k offices and 15k salespeople to BofA's existing network and protects an earlier \$2B cash infusion into Countrywide. Through this acquisition, BofA captures 9mm borrowers and becomes the largest player in every consumer finance sector. Interestingly, BofA will not have to sell any deposits, because Countrywide is an S&L (so the federal cap limiting bank holding companies to a maximum of 10% of the country's deposits does not apply).

M&A

Community National Bank (\$480mm, KS) will buy the branches and ATMs in Independence KS from Commerce Bank (\$16B, KS) for an undisclosed sum.

Big Writedowns

The NYT indicates Merrill Lynch may have to take a \$15B writedown, as a result of mortgage sector losses. Meanwhile, Citigroup is expected to report in its 4Q earnings that it posted \$14B in writedowns.

Even More Housing Woes

Lennar, the nation's largest homebuilder by revenue, is reporting it sold an 80% stake in 32 housing communities to a vulture fund investor group for 60% less than where the properties were valued just 2 months earlier. All told, 11,000 properties were sold, including land, condominiums and single family residential homes. The fund said it was expecting similar opportunities in South Florida, Denver, Phoenix, Austin and Tucson in coming months.

Corporate Earnings Pressure

New research finds S&P 500 company earnings likely dropped about 8% from last year, as stretched consumers were negatively impacted by weaker housing, higher oil prices and a cut back in available funding options from lenders.

Bank IPO

Solera National Bancorp (\$19mm, CO) completed the second closing of its IPO, raising over \$25.5mm, well above its initial target of \$22mm.

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