MARCH MADNESS OF LOANS

by Steve Brown

It is March, so we have to write our obligatory column of March Madness. The men's NCAA basketball tournament gets going today, so workers everywhere will waste an estimated $4B in productivity keeping up with their brackets. If you don't know Dick Vitale from Dick Van Dyke, stay with us, because we will get back to banking in a second.

Because there are more than 9B possible outcomes in the tournament, we take a quantitative approach to deciding our chosen teams. Our methodology goes beyond picking our favorite mascot or geography. First we start with our gut to choose our "emotional entry" (Memphis is our pick here). Then, we use bracketscience.com and poologic.com to download the latest Vegas odds and team statistics in a model to come up with 2 more completed brackets (here we have North Carolina and Kansas to go all the way). Then we layer in a couple Cinderella picks (we are going for Texas and Stanford this year). Finally, we throw all the research out the window and fill out a tournament with our favorite, UCLA, winning it all. If you are thinking, I could win as well, if I had as many entries as that - you are right, but that is our strategy. Multiple entries means diversification, which is the key to winning the office pool - think of the bragging rights!

When it comes to lending, while bragging rights are important, a stable economic return above 12% (cost of bank capital) is the goal. Similar to multiple tournament entries, we like a variety of loans, in a variety of places made at a variety of times. Agriculture, consumer and CRE all play a part of a perfectly balanced portfolio. Each month we meet as a risk committee to come up with allocation targets. We then discuss the most efficient way to change our mix which includes discussions of sale candidates, pricing, underwriting criteria and marketing. In this dynamic fashion, we can drive our portfolio's mix based on our allocation targets. Presently, we are reducing construction and CRE while increasing C&I exposure.

If we can't purchase participations to meet our targets from community banks all across the country, then we turn to the larger, national banks to participate in national C&I credits rated "BB" to "BBB." On average, pricing is Prime less 1% to Prime flat, for a 3Y to 5Y maturity and a probability that averages 0.71%. This strategy not only allows a risk-adjusted return of 16% or greater, but allows us to pinpoint our exposures across a wide range of industries in order to better balance our existing portfolio in terms of risk and diversification.

Since we need to purchase large sizes of these transactions (plus it helps with pricing for all), we are always looking for other banks to join us in this program. In addition to the above attributes, these loans all come with upfront fees, are already funded for immediate earnings and have servicing done by us. Current names include: Boise Inc (formally Boise Cascade), Metavante, Bolthouse Farms, Royalty Pharma and Direct TV to name a few.

For more information, contact us via e-mail and we can send you out the available names, our sample credit package and documentation. We also have a fairly long list of references from banks from all around the country (you don't need to be a member of Pacific Coast Bankers' Bank) that have purchased from us in the past.

Maybe the extra loans you purchase will allow you to meet your goals, give you more time to manage both your core loan portfolio and have multiple March Madness picks? If you do, we are confident that you will emerge as your office's 2008 "Diaper Dandy" for both lending and college basketball.

BANK NEWS

Citigroup

The firm will layoff 5% of its workforce in the securities unit.

Credit Suisse

Intentional mispricing of CDOs are causing a ton of embarrassment this morning for the Swiss bank. The revised mark-to-market will likely result in the firm's first quarterly loss since 2003.

Capital One

The Bank rolls out its new online, high-yielding savings account. The account is one of the highest paying of all national banks at 3.85% APY for balances over $10k and 3.00% for balances under $10k (rates as of yesterday). This account can only be assessed either online or through checks via mail.

Online Savings Accounts

For the record, 10 of the top 50 US banks now offer online savings accounts.

SBA Manual

The SBA looks to release a revised standard operating procedures handbook this week. This streamlined version is down to 400 pages (from 600) and will be available online.

Platinum Business Accounts

We are happy to see the recent trend of community banks adding features to their premium business bundles such as free non-foreign ATM use, free stop payments and free employee checking. While we have not tabulated the numbers yet, it looks like that the cost for maintaining these accounts have decreased over the last couple of months.

JP Morgan

The Bank rolls out their Advanced Checking Product targeted at business customers. While the "advanced" feature is that you get a "preferred" 1Y CD rate, the top rate is a mere 2.3%.