INSIDE THE HERD OF THE CONFERENCE CIRCUIT

by Steve Brown

In the past 3 weeks, we have made presentations at 5 conferences with over 1,000 attendees. While at those events, we also spent countless hours speaking with CEOs, CCOs, CFOs, directors, economists, analysts and banking examiners. To save you the airfare, lumpy hotel beds and bland continental breakfasts, we thought we would share some common themes and interesting commentary we picked up.

1.The amount of mortgage equity withdrawn from homes (i.e. using one's home as an ATM) has fallen from a high of about $1T in 2006 to less than half of that today. Consumers that can't get money can't buy things - so contraction on the consumer front is likely to continue.

2.Securitization conduits have stopped making long-term CRE loans to small business customers (great for community banks) because funding from investors has dramatically slowed. Prices on "A" rated commercial mortgage backed securities have fallen (due to illiquidity) from $100 in January 2007 to $46 today. Until that reverses, don't expect to see long-term fixed rate loan competition from these companies.

3.Experts calculate most large Wall Street broker-dealers are holding about 30% of their inventory in illiquid investments that cannot be readily sold. This continues to hurt bank investment liquidity (for those looking to sell).

4.Loan portfolio diligence for bank M&A has ramped way up. Potential acquirers are now looking at 80% of loan portfolios and are focused on exposures to real estate, recent ratings downgrades, reserve methodology, exposures to raw land, asset deterioration and exposure to weaker geographic areas.

5.A collapse in CDOs has also completely destroyed TRUPs. Now underwriters try to organize groups of bank issuers and those with money to all show up on the same day to make the exchange. These sessions operate more like individual private placements than anything else. Underwriters that have been able to pull these off indicate banks are now paying 2 points in up front fees and Libor+350 to 450bp. Fixed rates are being quoted in the 8% to 9% range.

6.Investment leverage programs are back in vogue. Commissioned salespeople are pushing these like water rushing from the Hoover dam. You probably know we aren't big fans of these given the risk-return, but we'll cover that more in depth in coming days.

7.Lots of banks seem to have forgotten that to issue brokered CDs, they have to remain well capitalized or get specific approval from their regulator. With so many banks taking writedowns on their loan portfolios in the past 2 quarters, it appears likely some banks will eventually not be able to utilize this wholesale funding source. Understanding that not being able to roll over current brokered CDs on the books when they mature and exploring alternatives to protect stakeholders might not be such a bad idea.

8.The FRB wants you to know there is no issue whatsoever in borrowing at the Discount Window - the stigma is gone. We urge community bankers to test this facility to make sure they know what to do before it is needed. Under changes implemented in 2003, eligible banks do not have to exhaust other sources of funds before coming to the Discount Window to borrow. There are also no restrictions on the purposes for which funding can be used.

There are many more themes from these conferences and conversations that we know you will also want to hear. Since we're out of room, however, we'll have to sign off and weave those into upcoming issues of this publication.

BANK NEWS

Settled

Citigroup will pay $1.7B and release an estimated $4B in claims to settle an Enron creditor class action over its alleged roll in the firm's bankruptcy.

Muni Deposits

The FDIC published recent findings that show increasing municipal deposit insurance coverage would reduce a bank's need to secure public fund deposits. As a counter argument, the report also highlights the fact that doing so would also create an advantaged depositor class.

Mortgage Rates

Despite 300bp of Fed Funds rate cuts since September, the average 30Y residential mortgage rate has decreased only 47bp (due to widening mortgage spreads and a steeper yield curve).

More Direct

Starting next week, the Treasury will drop the limit for direct customers from $1k to $100 for the purchase of bills, notes, bonds and inflation-protected securities.

Flood Insurance

Regulators have proposed revisions to Federal flood insurance requirements which help clarify finer points. The guidance is out for comment until May 20th.