STOPPING A BULL RUN

by Steve Brown

In case any bank CEO doubts why they should have an emergency media plan ready, National City can tell you it was the difference between success and disaster. After rumors swirled about their demise yesterday, their stock sold off, falling to the lowest level in 24 years (down 40%). Trading was halted around 11:20am and the media started to fan a panic. Blogs lit up and depositors started to worry. By 12:10pm, the Bank sent out a press release discussing capital, liquidity and the key line that "National City is experiencing no unusual depositor or creditor activity." While this probably an arguable point, we will give them the benefit of the doubt and conclude that when the press report was originally written, there was no unusual depositor activity. Regardless, the timing and wording was brilliant, as deposit redemptions slowed and the stock price rebounded slightly after trading was resumed. The bottom line is that it pays to have an action plan ready, in order to get the word out when rumors start swirling.

Touting a bank's liquidity options, access to the Discount Window, capital levels and credit quality in a ready-made press release are important. If you have had a recent exam, it might be helpful to mention it (even if you can't mention your CAMELS rating). Giving a contact phone number or e-mail address so the public can get more information is also helpful. Even better is to have the ability to update the website to carry new information on the front page. Knowing where to send the press release is also helpful, as the proper contacts at radio, print, Internet and other media outlets will provide the quickest way to get the word out. Better still, have a public relations firm standing by in order to promote the story and enhance coverage.

Monitoring and responding to blogs is now mandatory in this day and age. Each year, we see more and more news dissemination through this channel and with the rise of "gadgets" (desktop applications that allow monitoring and easy access) and "RSS" feeds (how the blog information physically gets distributed) blog posts are more prevalent than ever. Yesterday, National City went from having 4 posts per day to thousands. These posts occur on conventional news blogs such as Fortune, CNBC, USA Today and the WSJ; as well as more cutting edge blogs such as Drudge, Twitter, Flickr, TraderFeed and a host of random ones (Housing Time Bomb, Cold Fusion Guy and Scoopit to name several). While you can't respond to every one, you should know ahead of time, which blogs are the most widely utilized by investors and depositors. For community banks, having a dedicated set of employees with access to important blogs and versed in counter-hysteria combat is handy.

One other item worth mentioning is the titling of accounts. In a fairly new phenomenon, concern over the proper titling of retirement and individual accounts is more common. This can and should be combated in your next newsletter update (or statement stuffer) by asking each customer to double check the title of all accounts. This will prevent mass panic over whether or not FDIC insurance coverage applies, should mania arise.

Finally, make sure you have placards for the lobby and branch windows that tout the safety of the bank (since this is the point of impact as depositors wait to get in). In addition, make sure senior management is ready to stand in the lobby and walk the customer lines helping provide information.

Hopefully, this column will be completely worthless to you. However, as National City bank can tell you, if you ever need it, it may be too late if you don't lay the groundwork now.

BANK NEWS

IndyMac

Investor worries about the viability of the bank led customers to withdraw $1.3B in 11 business days, according to regulators. Meanwhile, the impact of the bank's failure is expected to be as much as 18bp, which could push the FDIC's reserve ratio down to 1.01% (recall that the FDIC is required to increase funds if the ratio falls below 1.15%). Finally, in absolute dollar terms, it is estimated the IndyMac failure could cost the FDIC $8B out of its current $53B insurance fund.

Percent of Uninsured Deposits

One scary point to consider, IndyMac had a very low level of uninsured deposits (some 14%), while many banks over $10B are closer to 45%.

Citigroup

The bank's CFO is quoted as saying it will probably be 2Ys to 3Ys before Citi expects to see its assets improve significantly.

Mortgage Rules

The FRB approved regulations as a first step to "restructure" the mortgage market. The measures include limiting prepayment penalties, increase borrower data verification and better advertising disclosure.

View

A recent regulatory research report indicates banks are "facing their biggest challenges since the early 1990s" and that deterioration is "widespread and relatively severe."