
THE MOST CREATIVE COMPENSATION AWARD

by [Steve Brown](#)

Last year at this time, an employment survey revealed that 67% of bank employees were happy with their 2007 bonus and 75% said they were on track for saving enough money for retirement. This year, we can't find these updated statistics, as the employment firm that put them out is now out of business.

The reality is that while most employees started 2008 with enough money in their 401(k)'s to think about retiring on; they ended up with enough money for a set of hand towels. We know that few employees will be happy with their year-end bonuses for 2008.

Things are not looking good for employment, a thought confirmed by today's numbers. You know things are bad when (we are not making this up), Hyundai announced this week that if you lease or finance a new car and you experience an "involuntary loss of income" within one year of the purchase date, you can return the car and walk away without future obligation. While this is a nice example of a creative pricing strategy in a period of deflation, the popularity of the campaign is a sad sign of the times. We have not confirmed the rumors of the Georgia soccer mom withdrawing \$300 from an ATM, only to wind up acquiring the bank, we can tell you that things are getting bad out there.

This week for example, Credit Suisse said it would eliminate 5k jobs and cancel "traditional" bonuses for 2008. However, when the Bank looked around, it realized that while it didn't have any cash for incentive compensation, it did have \$3B in troubled loans on its books. Somewhere along the politically-neutral halls of the bank, some creative human resource-type came up the idea of (we are not making this up either), giving away bad debt as incentive compensation. Now before you send an e-mail to us, know that we are not endorsing this schema, as we believe all our readers should get outlandish Wall Street-sized bonuses - but we are realists. While we don't wish bad bank debt on anyone, we only bring this up as a monument to creative thinking.

Technically, Credit Suisse funded a "bad bank" or a separate subsidiary housing the delinquent and defaulted assets (including OREO property). The bank funded the asset purchase with plans to distribute shares to its employees. While the bank debt used to fund the facility will get retired first, should there be any gains on the disposition of those assets in the future, the employees will share in the upside. In addition, employees will receive semi-annual coupon payments at Libor + 2.50%, with a soft termination provision that will attempt to unwind the facility during years 5 through 8.

The scheme is brilliant if you ask us, as it still allows the Bank to pay some semblance of a bonus, provides a mechanism for retention in the way of deferred compensation, aligns the bank's interest of getting the most out of these troubled assets in the future with the employee's interest and, fantastically, removes troubled assets from the Bank's books. The best part about this is the great twist of irony - it pays the people that were responsible for putting those assets on the books with the same currency they recommended to the bank - sublime.

BANK NEWS

M&A On

NewStar Financial (MA) has agreed to acquire Southern Commerce Bank (\$206mm, FL) for an estimated \$19mm. This deal awaits approval from the FRB as NewStar has applied to become a bank holding company. In the 3Q, Southern Commerce had a net loss of \$486k, totaling \$750k for the first 3Q of 2008.

Extended

FNMA and FHLMC said they will suspend the moratorium on foreclosures and evictions through the end of January, in order to give banks more time to work with homeowners.

TARP Extension

The Treasury Department has given banking regulators until January 15th to approve applications for those wishing to participate in CPP. It is interesting to note that Chrysler Financial is awaiting approval of an ILC charter that once approved would give it access to CPP.

M&A Off

CenterBank (\$90mm, OH) has canceled a deal to purchase deposits, branches and a large portion of assets from Peoples Community Bancorp (\$721mm, OH). This is the 2nd deal to collapse for Peoples. The 1st occurred in 2007 with Integra Bank Corp (\$3.3B, IN).

Lending

Consumer credit fell \$7.9B in November to \$2.57T, the first time a consecutive monthly decline has occurred since 1992. In October, consumer borrowing dropped \$2.8B.

Corporate Softness

S&P currently has 900 companies on its downgrade list, the highest number in history.

Employee Projections

A new survey by CareerBuilder.com finds only 66% of companies nationwide will hand out raises to existing employees in 2009 (down from 80% in 2008), 16% plan to reduce staff and 28% plan to hire contract workers instead of full time employees.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.