

LIFE IS PRETTY FAST - BLINK AND YOU WILL MISS IT

by [Steve Brown](#)

In the 1980's Matthew Broderick played Ferris Bueller in the movie Ferris Bueller's Day Off. The character played hooky from school and said the classic line above in this column, as he looked into the camera so we would all hear it clearly. This morning, we highlight a couple of facts that show just how fast life is moving. The information was picked up from discussions w/regulators, bankers and others in the know.

Capitalization - more is more. When it comes to capital, 12% is the new 10%. While regulators aren't saying so directly, it appears any bank with construction or commercial real estate exposure that doesn't have 12% capitalization will need to get there soon or adjust loan concentrations.

Deterioration - happening fast. Balance sheet deterioration is happening so fast it is hard to keep up. Some institutions that looked fine just one quarter ago, are deteriorating so quickly they are being taken over before the ink is even dry on their latest Call Report. If you have been wondering why large correspondent banks have been cutting federal funds lines, this is certainly a key driver.

A&D - still hospitalized, but not dead. Construction and land development delinquencies are roughly 10%. Back in 1992, they reached 23%.

Regulation - pendulum has now swung too far. The vast majority of bankers remain negative on regulatory oversight. Whether it is the near-nationalization of large banks, expectations for more aggressive regulatory consolidation or a crackdown on oversight/supervision, nearly every banker we know feels like they have been going through the meat grinder.

Risk - measure, monitor and control. Managing risk isn't about labeling things. Rather, bankers need to focus on each business unit, focus on the risks and make sure they fit the strategic direction of the organization. Training, documentation, discussion, robust technology and a plan are all key elements of any decent risk management program. Do that and focus on regulatory elements of measure, monitor and control risk and you are well on your way.

Customers - simple is better. If you want to make your customers happy during this time of difficulty, focus on making things simple (opening accounts, loan approvals, etc.), tell customers you appreciate their business, be responsive and execute. Do these items and customer studies say you have met 97% of expectations.

Loans - opportunity abounds. Lots of commercial loans that were in conduits will be rolling over in 2009 and 2010. These can provide a good opportunity for community banks, since many large banks are still out of the market. Develop a plan (such as using our BLP program), build your fishing net and get out there.

Cashflow - aggregate everything. When underwriting new loans or granting extension requests, banks must capture global cash flow on borrowers. Banks tell us they have seen some borrowers who don't hesitate to take cashflow from one project to support another. Without a complete cashflow picture one never knows the total risk exposure.

Workouts - never fun, but keep you healthy. Bankers are still having difficulty finding strong workout people and problem loans are up across the board. Unfortunately, this is also leading to slower response when problems appear and higher losses.

Reserves - 2% is the new 1.25%. ALLL needs to be heading quickly toward 2% or more in 2009. If not, bankers will find themselves at the wrong end of the regulatory stick.

Appraisals - more rules, more frequency. If a loan project is deteriorating or conditions have declined significantly since origination, bankers should not hesitate to get new or updated appraisals. The new regulatory guidance adds even more requirements, so bankers will have to be prepared.

As our show comes to an end for today as we fondly remember the scene with the economics teacher (played by monotone Ben Stein). He repeatedly droned "Bueller? Bueller? Bueller?" until a student said, "Um, he's sick. My best friend's sister's boyfriend's brother's girlfriend heard from this guy who knows this kid who's going with a girl who saw Ferris pass out at 31 Flavors last night. I guess it's pretty serious." Don't you miss the classics?

BANK NEWS

Deposit Rules

The FDIC issued a final rule that clarifies methodology for determining deposit account balances in the event of a bank failure. The rule particularly focuses on sweep customers. If you are a Dynamic Business Sweep (our on/off balance sheet utility) customer of ours you will receive a disclosure recommendation and rule update shortly.

NY Fed President

Bill Dudley, yet another Goldman Sachs ex-employee, will be the NY Fed's new President.

Foreclosures

The latest data from RealtyTrac finds foreclosure proceedings in 2008 soared 81% from 2007, as more than 2.3mm people were impacted. By metro area, Stockton, CA, was the hardest hit, with 9.5% of all homes receiving some sort of foreclosure notice.

Banker Economists

The Economic Advisory Committee of the ABA sees unemployment continuing to rise to 8.5% this year and mortgage delinquencies climbing through year-end.

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