NO LAP DANCING GIRAFFES HERE

by Steve Brown

If we were your average Joe Q. Public reading the headlines yesterday, we would be left with the impression that: A) Bankers are so rich and disrespectful that they are trying to blow wads of hard-earned government cash, B) Because of A, the industry can afford to pay management ridiculous sums of money, and C) Bankers have the business acumen of a reasonably bright giraffe. For example, the average reader surely concluded that Wells Fargo loaded up their top sales people with a couple billion of taxpayer money each, sent them to Vegas and said "go get some lap dances."

The lesson here is that bankers should put a confidentiality clause in their event contracts, but that is beside the point. We are not sure what goes on at Well's conferences, but we will defend Wells' right to manage their operations how they see fit. We can assume that if it is anything like our Executive Management Conference, there is a lot of hard work, exchanging of ideas and education on how to deliver more value to both customers and shareholders. Congress, now a shareholder of many banks, should want such events to occur.

While we are on this rant, we are further tired of Congress mixing up accounting treatment. Money is fungible and just because some banks took TARP capital doesn't mean banks are choosing to allocate shareholder capital to low income mortgage loans, while using taxpayer funds to purchase country club memberships. Sending sales staff to Vegas in order to learn how to better underwrite mortgages is an "expense," not "capital." We are certain that there is no line item for "Baccarat" sitting on the balance sheet of Wells Fargo. Besides, if Wells wanted to, they could party like it's 1999 on the Vegas Strip and still not touch the Treasury's $25B of capital given to Wells.

In similar fashion, the headline that Congress wanted Citigroup to stop their $400mm branding of Mets stadium is equally a joke. That is a 20Y deal for a 43k seat stadium of a pennant-threatening team. The stadium is in one of the more populated areas of the world and is next to one of the most heavily traveled freeways in the nation. If Congress is looking for a stadium travesty, they should first look at their own fair city. D.C. hoisted $610mm of municipal bonds on taxpayers to support the cellar dwelling Washington Nationals. This team not only doesn't have a pitching staff, they can't even get a sponsor.

Not to put to fine a point on it, but the bankers we know are not clinically insane (most) and while bankers have shortcomings, being frivolous with shareholder money has never been one of them (that would be the technology companies). Instead of pointing fingers and making it harder to operate, it would be more productive if Congress got behind something constructive.

A start would be putting a permanent and unlimited FDIC guarantee on DDA balances and leaving the interest bearing account cap at $250k. Given the rate of bank closures, assuring taxpayers that their money is protected would be better than making banks second guess their training and marketing moves.

Hopefully our point is made that bankers are inherently frugal and most bank expenses justifiably drive business. Vilifying these expenses may get votes, but it is counterproductive when taken to an extreme, inhibits learning, slows innovation and may result in a lower return for the very taxpayers

Congress is trying to protect. There will be no government-sponsored lap dances (that goes for men and women, so save the angry e-mails) at our hard-working EMC Conference coming up on May 6th. Register at: http://www.pcbb.com/2009Conf_Summary.asp

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BANK NEWS

Passing On Costs

As the FDIC raised premium rates last month, a number of banks passed on a portion of these costs to their business customers in the form of higher fees on cash management, wire transfers and monthly accounts fees.

Credit Cards

Payments at least 60 days past due jumped 50bps to a record high of 3.75% in January.

Retirement

A weak economy has pushed 86% of executives to delay retirement by an average 7.5Y. Between 3Q07 to 4Q08, $2.8T was lost on retirement accounts.