WITCHES, GYPSIES OR VOODOO DOLLS

by Steve Brown

Believe it or not, there is a movie that has just been released entitled "Drag Me To Hell." The reason we bring this up is because this horror flick has a premise every banker will want to know about. We have not seen the movie, but in it, the heroine is a loan officer at a local bank. This loan officer wants a promotion, so apparently she follows the rules very closely. A problem surfaces when our loan officer turns down a request for an extension on a loan with an elderly gypsy who is way behind on her payments. Given the credit crisis we don't blame this lender, but the gypsy does and so she puts a curse on our banker. The rest of the movie then revolves around our lender heroine, who turns around trying to avoid getting pulled down to you-know-where. At least the banker is still on the good side of this crazy premise.

Given all the stress in the banking industry right now, this got us thinking. Why wait around for some gypsy or witch to put a curse on you as a banker? Instead, grab your own voodoo doll or hire a gypsy/witch of your own. Use them for loan collections and this entire credit crisis will be over in a matter of months. Think of all the reduced stress for your special assets team as nonperforming loans quickly go current. What a great motivator for all of your staff.

We begin by examining the value of adding witches to your community bank staff. Here, it is important for bankers to start with a big cauldron, fill it with boiling water and dump in one cup each of ash leaves, cinnamon, laurel and cinquefoil. Note that all of these herbs are associated with divination and prophecy. Then cover the cauldron and boil away for exactly 13 minutes. Once the time is reached, lift the lid, inhale the vapors deeply and enter a psychic state. This sets the stage to see visions of what borrowers are doing, which ones are going to pay current and which ones are not. Once bankers know which customers are not going to pay current, they can shift strategy to the gypsy piece of this collection strategy.

When dealing with gypsies, it is important for non-gypsy bankers to be very careful. That is because for more than 1,000 years, gypsies have been taught it is ok to steal from anyone who is not a gypsy themselves. Bankers who aren't gypsies (and don't want to end up with 2x as many underperforming loans), will therefore need to closely monitor any gypsies hired in the collections department. Gypsies are known to mesmerize people with their singing and dancing, so once the witches ID the borrowers who won't pay their bills, roll in the gypsies and get these clients under a spell. Once these borrowers are zoned out, move to the final phase of collection Ã¢Â€" voodoo dolls.

For the voodoo doll phase of nonperforming loan collections, a few additional steps are required. First, construct a voodoo doll and be sure to dress it in the attire of the borrower to get real results. Next, remember the doll symbolizes a specific person, so it is important for coworkers to understand you aren't just playing with dolls, but are doing something quite serious indeed. Next, bankers should be extra careful with the pins, because we have to tell you they can hurt when plunged into a finger or thumb. Finally, it is important for bankers not to get carried away. This is because while sticking pins into dolls can be fun, it can also cause unintended consequences. Serious focus is required at all times and additional training may be necessary.

Hopefully, we have not offended anyone that might be taking a class to become a gypsy or witch, or those learning how to properly construct a voodoo doll. Further, while our own CCO uses many of these methods daily, we cannot recommend them to any banker that is not properly trained. Finally, no one wants to get dragged anywhere, so any use of the above methods should include a long string of stinky garlic worn around the neck.

BANK NEWS

TARP Change

The Fed surprised the 19 largest financial institutions by indicating they will need to "successfully demonstrate access to public equity markets" before they will be allowed to repay TARP. The change indicates this group of institutions will need to increase common equity levels even further than recently announced/closed amounts.

FHLB Guarantee

The ABA reports that the Federal Housing Finance Agency is thinking about instituting a guarantee that would protect the assets and operations of the FHLB banks.

Sweep Disclosure Rules

The FDIC issued clarification that sweep accounts at bank's trust departments (idle cash waiting for investment) are not covered by the agency's sweep coverage for depository insurance since this would be similar to funds held at brokerage houses.

Thrifts

Thrifts improved financial performance in 1Q as 75% were profitable, up from 65% from 4Q. Average ROE was -0.02% (up from -1.82%).

Eviction Notices

Foreclosure notices reached 2.3 million households in 2008 - a marked 81% increase from 2007. Over 30% of these homes are not owned by the occupant, compounding fears that even tenants who pay rent on time will face unanticipated evictions. Analysts anticipate foreclosure activity in 2009 will continue to increase.