# WORLD CUP AND NON-EMOTIONAL BANKING

by Steve Brown

The World Cup is finally upon us. Having 7x the viewership of the Super Bowl and bringing in more than $4B in revenue (2x that of the Olympics), the World Cup is the greatest sports event on earth. It is hard for most American's to even fathom the passion of the average soccer fan. In America, most sporting events are largely passive in nature, corporate and all about the sponsorships. You may stand up in the final seconds or cheer loudly when your team scores, but most of the time you sit and watch. The average World Cup soccer fan, by contrast, reacts to everything. They scream when a player changes their socks, cry, dance, chant, boo, throw their drink and talk on the cell phone - most of the time all done simultaneously.

World Cup soccer, like banking, has changed over the last 10Ys. Soccer is an emotional game in the stands, but it used to be an emotional game tactically. Star players like Pele or Maradona used to run around, filling the open space, in hopes of creating a scoring opportunity. Now, like banking, the environment is more competitive. Single players are now quickly neutralized, so haphazard scoring occurs less and less frequently. Set plays are now common. In this World Cup, many teams will be running set plays just to achieve a corner kick, so it can then run a set play off of that. Event the Italian team, who's players on the field are often seen screaming, crying, dancing, chanting, booing, throwing their drink and talking on the cell phone, are now cold tacticians.

This natural evolution has also occurred in banking over the last 10Ys. Top performing banks like Bank of Hawaii ($12.4B, HI) or FirstBank ($10B, CO) have consistently succeeded because they tactically go after specific segments of the market (like small business) with specific products (like cash management services) in order to create specific value. On the lending side, these banks are as disciplined and unemotional, working on structuring, loan pricing and credit to create double digit return on equity.

In 2010, almost all of the top performing banks that we have talked to are trying to run set plays to generate more fee income. Coming up with new lines of business, increasing service fees and creating bundled products are just some of the pre-determined tactics that management has put in place for their players to execute. Given low rates and growing reserves, this tactic is one of the few that can immediately help lift ROE.

As we kick off the 2010 World Cup tournament, consider what your bank is strategically and tactically doing to create value. Banking, like soccer, is no longer about hiring a couple of superstars and letting them run around in the open field. Our industry has become more disciplined and quantitative in nature.

For proof of this in this World Cup, watch the penalty kicks. Several years ago statistical analysis was done showing that most players are left footed and so they kick to the goalie's right. Knowing this, many teams changed tactics to kick to the goalie's left. Knowing this, over the last year in soccer, shooting in the middle, traditionally the least likely to score, has been garnering the highest percentage of goals, as the goalie would either move left or right ahead of the kick. It should be interesting to see where all this double and triple-thinking will lead this year.

# BANK NEWS

**Fin Reg Update**

The final stage of financial regulatory reform debate has begun and the 1,974 page base text of the combined House/Senate legislation that will be under consideration has been released. The text establishes a Consumer Financial Protection Bureau rather than an independent Consumer Financial Protection Agency. CFPB rules will be reviewed by the regulators before being proposed and can be vetoed (good); allows new thrift charters (good); Collins has indicated tweaks will be made around TRUPS (good); new mortgage rules would require that lenders ensure borrowers can repay mortgages before offering a loan, restrict prepayment penalties and add restrictions to refinanced loans (bad); excludes the FHLBs from a prohibition on institutions lending to an unaffiliated company that exceeds 25% of capital stock (good); modifies standards for accredited investors to annual income test of at least $450,000 and a wealth test of $1mm that excludes the value of a the investor's principal residence (harder to raise capital); 3Y moratorium on new ILC charters (good). This is all subject to change, as the Committee resumes negotiations on Tue, is expected to complete its conference report around Jun 21, will work up a conference report by Jun 28 and then send a final bill to President Obama to sign into law shortly thereafter.

**Tax Credit**

Congress has proposed a measure to extend the home buyer tax credit to the end of Sept for transactions bottlenecked in the pipeline and with purchase signatures met by the April 30th deadline.

**Money in the Bank**

According to the FRB, companies in the US held $1.8T in cash at banks at 1Q. This marked a 26% YoY rise and the highest YoY increase in 58Y. Cash accounts for 7% of assets for US firms, the most in 47Y. Bank lending dropped at a seasonally adjusted rate of $250B from 4Q to 1Q, noting a 5th consecutive quarter of decline.