

A BANKING TRIFECTA

by [Steve Brown](#)

In horse racing, a "trifecta" is a bet in which the gambler must predict which horses will finish 1st, 2nd and 3rd in the exact order. The word reportedly comes from a related betting term, "perfecta" or "exacta" which both refer interchangeably to picking the first two horses to cross the finish line in "perfect" or "exact" order.

We bring this up because yesterday was somewhat of a trifecta in banking. First, Congress passed the biggest rewrite of the financial markets since the Great Depression. The bill now goes to President Obama for signature expected next week and will then be handed off to no less than 10 different regulatory agencies to interpret and to issue new rules banks and other financial firms will need to follow. Second, Goldman Sachs agreed to pay the largest-ever penalty by a Wall Street firm (\$550mm) to settle a lawsuit brought by the SEC. The SEC had alleged Goldman misled investors by not disclosing hedge fund manager John Paulson had played a role in selecting subprime mortgages in certain portfolios and providing incomplete marketing materials. Third, JP Morgan Chase reported 2Q earnings that were above expectations, but even more importantly was able to reduce loan loss reserves by \$1.5B as non-performing assets fell. Despite that good news for bankers (hey, who doesn't like that trend), CEO Jamie Dimon was quick to quell the euphoria by saying "It is too early to say how much improvement we will see from here."

All of this news gives community bankers and analysts a lot to think about for sure. It is also clear that only additional time will deliver enough information and clarity for us all to understand the full impact of this confluence of events so we will all have to continue to monitor racing conditions from here.

In another odd twist of events, the Wall Street Journal published results of its latest survey of 55 blue chip economists that was largely positive. The results were interesting, as 64% of this group projected economic conditions would improve over the next 12 months, while only 9% said things would get worse. The remainder felt things would probably stay about the same. In addition, the group projected the odds of a double-dip recession at 20%; they expected GDP to grow below 3% through 2Q 2011 and the unemployment rate is expected to ease to 8.6% by the end of 2011. That positive spin is interesting, when you consider just a few days earlier the FOMC released the minutes of the June 23 meeting that were not quite so positive perhaps. In discussion, the Fed predicted the unemployment rate was generally expected to remain noticeably above its long-run sustainable level for several years and it was also indicated the Fed did not expect to see a full recovery from this recession (due to its severity) for around 5Ys to 6Ys.

The good news on the economic forecasting piece for us all at least is that studies show it doesn't much matter. For example, research done by the Fed over a 23Y history finds economists have had trouble producing forecasts that were better than naïve predictions. Meanwhile, another study of 20Ys of interest rate forecasts of prominent economists every 6 months found those predictions were wrong a whopping 70% of the time. Finally, another study that analyzed 50Ys of forecasts found so-called economic experts missed the mark 75% of the time. In short, economic forecasting is about as good on average as guessing or a monkey throwing darts at a board.

While calculating the odds of winning a trifecta is complicated (depends on the odds for each horse, the number of horses, combinations, etc.), we can say we were all around to witness the largest rewrite of financial markets since the Great Depression, the largest payout in SEC history and the largest loan loss reversal we have ever seen.

BANK NEWS

M&A

People's United Financial (\$22B, CT), holding company of People's United Bank, has agreed to purchase Smithtown Bancorp (\$2.4B, NY) for \$60mm or approx. 0.4x book, and LSB Corp (\$907mm, MA) for \$96mm, or 1.6x book.

M&A

BancFirst Corp. (\$4.5B, OK) has entered a deal to purchase Union National Bancshares, Inc. (\$135mm, OK) for an undisclosed sum. BancFirst will expand by 2 branches, \$86mm in loans and \$120mm in deposits.

Earnings

Citigroup said profit dropped 38% (but was better than expected) over the same period last year, as it produced \$2.7B of income for 2Q. While improvement came from lower relative loss allowance, investment banking revenue was down. Bank of America announced net income declined 3% to \$3.1B YOY. Lower profit was due to lower revenue associated with trading and loan production. However, this was partially offset by lower loan loss reserves.

Cutting Costs

BofA has begun charging some customers \$8.95 for the mailing of their monthly statements. Currently this applies only to 1 type of account in GA, however, the bank plans expand this charge to other regions and accounts

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