SCARY UTTERANCES

by Steve Brown

One scary thing in the banking industry is that earnings look bleak. Achieving a 12% return in 2011 is going to be more difficult than taking that regular sized Nestles bar away from your kid on Sunday night. Bankers will have to deal with more regulation, little loan growth, sticky asset quality issues and compressed margins, so earnings will be tricky. Since more verbal candy will likely be needed, we have compiled a compendium of comments we have heard bank CEOs say that you can use when you are stuck coming up with that perfect cliche' to describe your bank's performance. In addition, this guide will be handy for employees, investors and regulators to help interpret what the CEO really means. Here is our top 10 list for 2011:

"We have been successful in controlling costs this quarter" - Translation: Without loan growth it has been easy to keep a lid on compensation, but we remain jealous of "robo-signers," as the sheer efficiency of closing 400 foreclosed homes per day should be in some Banking Hall of Fame.

"Our stock price is a fickle mistress" - Translation: Since we have been trading at 50% of book value, if I focused you on our market capitalization you would kick the snot out of me like my spouse would if I was ever caught cheating with a mistress.

Any phrase using the word "bus" - "Getting on the bus," "Getting people in the right seats on the bus," or anything close usually means you are in trouble because the CEO is falling back on a 2001 management book for inspiration.

"We are focusing on building deposits" - Translation: We were focused on loan growth in 2006 when loan growth was easy. Now that deposits are roaring in, we are focused there.

"Our asset-liability position remains neutral" - Translation: Since we have no way to model loan floors, prepayment risk or deposit duration, we have no idea of our position if rates go up 400bp. Thus, we don't have an opinion.

"We continue to face regulatory headwinds" - Translation: Examinations are really rough right now so it is easier just to avoid originating any loans at all.

"That was in the past" - Translation: We screwed up and had to classify a bunch of loans. Focus on what we're doing this quarter, unless we have to take more writedowns and then we will put that performance in the past as well.

"We are committed to implementing best practices" - Translation: Seriously, would you come to work or invest in this bank if you knew they were following "worst practices"?

"We are controlling the controllables" - Translation: Everything going wrong is not really our fault since it's beyond our control. How were we supposed to know that lending into a 3 cap rate was a bad idea?

"Bottom line," "value creation" and "blocking and tackling" used in the same sentence - Translation: Your CEO has business cliche' Tourette Syndrome and should be evaluated by health professionals.

We can't decide if we are going trick-or-treating dressed as Ben Bernanke or Elizabeth Warren, but look for us in a scary costume. Until then, have a happy Halloween and if you are turning your bank into a haunted house, try not to put all your classified loans out front in a bowl because it may be too much for some kids to handle.

BANK NEWS

Appraisal Regulation

As mandated by the Dodd Frank Act, the Fed published its interim final rule for real estate appraisers. The rule is designed to ensure real estate appraisers are free to use their independent professional judgment in assigning home values without influence or pressure from those with interests in the transactions.

Foreclosure Mess

Research by Lender Processing Services finds foreclosed borrowers were an average of 484 days delinquent on their mortgage payments in Sep (about 16 months), up from an average of about 11 months in Jan 2009. Meanwhile, the largest US mortgage servicer, Bank of America, reportedly took an average of 18 months to complete foreclosures during the 3Q.

Construction Rebound

McGraw-Hill is forecasting the value of new projects that start construction will rise 8% in 2011 as the sector begins a slow recovery. By sector, single-family residential is expected to lead the rebound with a 27% increase; multifamily housing is expected to rise 24%; commercial (office, retail, hotels and warehouses) should improve 16%; manufacturing buildings should increase 9% and public works construction is projected to fall 1% (as federal stimulus money and state budget cut backs limit activity).

Mountains of Cash

Analysis by Moody's finds nonfinancial US companies are holding nearly $1T in cash and short-term investments ($943B) vs. $775B at the end of 2008. Reasons cited include limited business expansion, low hiring of employees and concern about the strength of the economy.