CLEANING UP IN 2011

by Steve Brown

Flying back from the holiday break, we ran across an interesting teaser in USA Today that highlighted a study of what people notice first when they are introduced to someone. It wasn't that "smile" was in the #1 position with 47% of the vote, nor that "eyes" was in the #2 slot at 31%. No, the most interesting point of the survey, at least for us, was the odd #3

most voted "smell." It just goes to show you how important it is to shower every single day and to use deodorant if you ask us. Since so many bankers are preparing for the New Year and the resolutions that will certainly follow, we thought smelling good might be worth adding to the list given this new found knowledge. Before we go too far into what else we plan to do next year, however, there is the matter of a few more days of 2010 to finish off. So, for those unlucky saps like us that are working right now AND reading this publication, we offer the following for your reading pleasure as you close off the year and prepare for next.

Regulatory: New regulations under Dodd-Frank (DFA) will require banks to take a closer look at compensation structures for management and employees. Incentives will now need to be tied to long term performance and be designed to avoid excessive risk taking, so get ready. Compensation programs will need to be retooled to address front-end "holdbacks," back-end "clawbacks," and more deferred compensation. Another area bankers can expect to do some work in 2011 will be around capital deployment. Since regulatory agencies are requiring more and higher quality capital, it goes without saying that will result in lower leverage. As a result, being able to model and deploy capital will be an important skill set for all community bankers to have. Risk management will be another key area that DFA drives to higher ground. Having a way to identify and measure risk within your systems and pull the information out for easy presentation to senior management and the board will become more commonplace as the year progresses. DFA will hopefully lead to a more meaningful set of management metrics that will lead (eventually) to more succinct board reporting packages. More time should and will be spent working to solve problems and implement regulations coming out of DFA, so board involvement will certainly ramp up, but be more meaningful. Look for the behemoth board books to slowly whittle down to something more manageable by 2013 as certain data (like risk-adjusted return) becomes more relevant and conversations turn toward more forward looking solutions than looking at loans that have closed in the past month.

Technology: It is estimated that nearly 23% of all banks now offer mobile banking and by 2013, more than 53mm people will be actively using mobile banking. Most banks that offer mobile banking do so through apps that delivers customers the ability to check balances, make transfers and locate branches. The largest in the game, Bank of America, recently reported about 15% of its customers used mobile banking weekly, while Wells Fargo, Citigroup and JPMorgan reported levels around 11%. This area and boosting risk management capabilities will be on the docket for many community bankers in 2011, as efforts accelerate to

deliver banking services wherever and whenever the customer wants them (but in a lower cost environment than branching).

In closing, there are many new things that bankers will face in 2011, so preparing a list now might make some sense. At least you can assign teams to focus on such efforts as you welcome everyone back in January. Finally, assuming the survey is correct in other categories, despite the new clothes you got for the holiday that you planned on wearing to work; only 7% of people will notice. In addition, only 4% will notice your hair, so to really draw attention, might we suggest a Mohawk.

BANK NEWS

Retail Sales

The buzz in the market was over MasterCard's SpendingPulse data that showed that Nov/Dec. sales were up 5.5%. Naysayers of the stronger than expected retail data (3% growth was expected), say a big northeastern storm last year hurt sales in 2009 for the same reporting period (because of how xmas fell). Of note, Mastercard reported strong upticks in spending for furniture, jewelry and other luxury goods.

Muni Issue

In a sign that could be of the times, Hamtramck (MI) is "pleading" with the State to let them declare bankruptcy. Right now, the State is worried that if they let Hamtramck to file, there are 30 cities to follow.

Ally Claims

Ally Financial reached an agreement to settle their mortgage repurchase exposure with FNMA. The settlement was for approx. $462mm on $292B of original mortgages sold. The news was positive for banks, as the liability was said to have reached in the billions.

S&P

More U.S. companies had their credit ratings boosted by S&P this year than saw them cut for the first time since 1997, as borrowers increased profits and stockpiled cash.

Housing

Zillow.com sees US housing prices falling another 5- 7%, before hitting a low towards the end of 2011.

Fannie Freddie

One if the FHFA's new regulations will require Fannie and Freddie to shrink their mortgage portfolio by 10% each year starting in 2011 until assets drop to $250B.