THANKFUL

by Steve Brown

Despite current economic woes, this Thanksgiving Day we have a tremendous amount to be thankful for. In addition to health, family, friends and freedom; we also have capitalism. While slightly out of vogue, this tarnished system is still the best one going and its concepts are heavily ingrained in our collective history. Take Thanksgiving.

When the pilgrims tripped over Plymouth Rock in 1620, they brought with them the concept of "farming in common." Here, as a community, farmers tilled the land together and shared equally in its harvest. This would make for a nice grade school lesson in sharing, except it didn't work. As any red-blooded American banker can surmise, thrifty individuals that worked hard resented those that did not. Discontentment and underproduction reigned, until finally, after 3 winters of near-starvation and the loss of half of the colony, a new experiment was tried.

The mayor of Plymouth drew up a map and gave each family a plot of land to call its own. Of course, production increased by a factor of 5 the first year. As was noted at the time, "Private land made all hands industrious" and "Each family, attempting to better its standing in the community, increased the hours worked on each plot." After the first spring of this experiment, by the fall of 1623, families had enough extra crop production to share in a "day of thanksgiving, "proclaimed to thank God for good fortune." The following year, families specialized even more and produced such a bountiful harvest that, in addition to having the traditional feast, they started trading excess corn and wheat for furs, spices and goods. Commerce flourished and the concept of private land and nascent capitalism was solidified in American tradition.

On this Thanksgiving Day, we are thankful for our health, those around us (including our readership) and for our good fortune. We also acknowledge our most basic desire to get ahead in life, which helps create much of the bounty we enjoy. Like the Pilgrims back in 1623, sometimes harvests are simply a matter of putting in place the proper incentives.

Have a Happy Thanksgiving and we wish all our readers a safe and joyous one. If you are looking for some humor today, we pass on our favorite Thanksgiving banker joke: A banker in Charlotte calls his son in San Francisco the week before Thanksgiving and says, "I hate to ruin your day, but I have to tell you that your mother and I are divorcing; forty-five years of misery is enough. "Pop, what are you talking about?" the son asks. "We can't stand the sight of each other any longer," the father replies. "We're sick of each other, and I'm sick of talking about this, so you call your sister in Chicago and tell her." Frantic, the son calls his sister, who explodes on the phone. "Like heck they're getting divorced," she shouts, "I'll take care of this." She calls home immediately and screams at her father, "You are NOT getting divorced. Don't do a single thing until I get there. I'm calling my brother back, and we'll both be there." As she hangs up her phone, the old man hangs up on his side and turns to his wife. "Okay," he says, "they're coming for Thanksgiving and paying their own way."

BANK NEWS

Severe Testing

Under the Fed's newly announced stress test for 2012, all of the large banks will all have to test an impact to capital in the most severe case of an unemployment rate of 13%, an 8% drop in GDP and a

21% drop in home prices. Let's all hope we don't see that scenario come to pass.

S&P Bond Insurance Ratings

Banks await changes in S&P municipal bond insurance rating methodology that may result in material downgrades of some insurers. While originally scheduled for Oct., Moody's said the results and methodology will be published at the end of this month.

Legal Crackdown

The Justice Department is "reviewing the statements and actions by banks and their trade associations regarding possible increases in consumer fees for using debit cards" for possible antitrust violations. Justice is investigating whether banks or trade associations engaged in price signaling or collusion in reaction to new federal limits on the amount that financial institutions can charge retailers for processing debit card transactions.

3Q Industry

The FDIC released 3Q data and some of the themes were a 49% increase in earnings YOY (driven almost entirely by a 47% reduction in loan loss provisions); earnings improvement for 9Qs in a row (good news); net operating revenue remains soft (up 0.5% YOY); net interest income continues to fall (down 2.2% and the 3rd Q in a row); average NIM fell 5% (to 3.56%); ALLL average of 2.69% (down 5%); assets grew 3.3% YOY (loans down 0.7%, securities up 5.6%; OREO down 5.0%; all other assets up 9.9%). Lending sectors that saw YOY growth included: other (+11.2%), C&I (+10.1%) and farm (+1.2%). Loan sectors that shrank YOY were: construction (-28.1%); home equity (-6.1%); other consumer (-3.3%); credit cards (-2.6%); SFR (-1.6%); and nonfarm nonresidential (-1.6%).

Industry Job Cuts

Firings in the global financial services industry this year have reached 200,000, a 15% increase from the level reached in 2009.

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