# HACKING YOUR BALANCE SHEET

by Steve Brown

In case you were not invited, today is the qualification round of the Hacker Cup sponsored by Facebook. The Cup is a worldwide competition for the best software coder and the first round starts with over 12k entrants and a marathon-like 72 hours that covers a series of problems. Hackers are judged on speed and coding elegance and finalists are invited to Facebook headquarters in March to compete for $5k in prize money, possible job interviews and glory. To put this into perspective, it is just like the Stanley Cup, only with a larger US audience. Given that hackers worldwide went crazy yesterday denying service to multiple government and music industry sites in connection with the shut down of the Megaupload file sharing site, hackers are particularly riled up this year.

Similar to hackers, bankers are also riled up (they just smell better and have less facial hair), as it is the start of the year and each management team has some large goals to hit as competition picks up around who can surpass budget for 2012. To help, we suggest our own elegant "hack" to allow your bank to operate more efficiently and with conceptually lower risk.

Consider purchasing C&I loans from us to gain an efficient and elegant solution to put loans on your books and increase net interest income. Our national C&I loan program provides access to credits that are normally difficult for community banks to obtain. These loans are made to large borrowers, who seek commitment amounts from their respective large national banks. We capture these loans through syndicate groups and then break up the aggregate purchase into loan to sizes appealing to community bank customers (typically down to $1mm).

These loans are shared national credits and regulators assign loan ratings universally on them given the large size. That is a benefit because loans booked by community banks have the same rating as that same loan booked at Bank of America or another lead bank. Our customers are assured that ratings are consistent. Given challenging loan growth and intense competition, this program offers immediate access to C&I loans without the perils of competition and shopping by the borrower. Community banks participating in this program can choose from multiple names, buy C&I loans and balance risk and return.

Another thing to consider relates to interest rate risk. We have noted in the past that many community banks could benefit from floating rate assets. To help, our loan program specializes in offering a wide variety of floating-rates that reset monthly, quarterly, semi annually and annually. Further, when it comes to credit diversification, these national syndicated credits may have good (low to negative) correlation to real estate markets (when real estate values drop, the prospect for C&I credits does not follow), thus helping most banks lower their overall risk profile. In addition to gaining earning assets, choosing the right names can help lower the overall credit risk of the balance sheet and offset concentration issues.

Another benefit of this lending program is that we share our underwriting work and our analysis with your bank to assist in your credit underwriting process. Our bank affiliate, PCBB, also uses the very same national C&I loan market to bolster our loan volumes. To help, we even make our underwriters available.

Send us an e-mail or contact your PCBB relationship manager if you are interested in finding out how our C&I loan program can help you achieve your goals, so you can focus on your core customers. If you do so today, not only do you not have to stay up drinking Red Bull for the next 3 days; but you could have loans on your books by the time the Hacker Cup concludes.

## BANK NEWS

**4Q Earnings**

First Horizon reported a profit of 13 cents per share vs. 20 cents a year ago. On a YOY basis: revenue declined 7%; noninterest expense fell 5%; loans declined 2%; deposits grew 7%; loan loss provisions fell 78% (to 2.34% of loans); and nonperforming assets declined to 2.57%. Comerica reported a profit of $96mm, flat to the level of a year ago. On a YOY basis: loan loss provisions fell 67%; the allowance to loan ratio declined from 2.24% to 1.70%; noninterest income fell 15%; noninterest expense increased 9%; loans grew 4%; investments jumped 27%; and deposits climbed 16%. Fifth Third reported a profit of 33 cents per diluted common share vs. 33 cents a year ago. On a YOY basis: ROAA fell 8% to 1.08%; NIM fell 2% to 3.67%; efficiency improved 8% to 67.5%; total loans grew 5%; commercial loans grew 4% (mostly in C&I up 13%); consumer loans grew 6% (mostly in residential up 25% and automobile up 8%); deposits climbed 3%; noninterest income fell 17% (primarily on lower mortgage banking revenue, Durbin and lower securities gains) and noninterest expense climbed 1% (litigation reserves, termination of FHLB advances and hedging transactions). SunTrust reported a profit of 28 cents per average common share vs. 23 cents a year ago. On a YOY basis: Revenue fell 12%; net interest income climbed 2%; provisions fell 57%; NIM grew 1% to 3.46%; loans grew 4% (mostly C&I up 5%); deposits grew 4%; the allowance fell 28% to 2.01%.

**Crackdown Coming**

Terming aggressive debt collection tactics and unauthorized debits on a person's checking account "outrageous," CFPB Director Cordray said payday lending will be immediately reviewed.

**Regulation**

The FDIC issued a final rule requiring the 37 banks with more than $50B in assets to submit periodic contingency plans to the agency for how they can be resolved in the event of a crisis.

**More Worries**

The World Bank is warning global economic growth could slump further, causing shocks to the economic system that could be more severe than the 2008 crisis. The group cut its GDP forecast for the U.S. to 2.2%.