

## What To Expect in 2010

**More of the same:** More regulation, higher capital requirements, lower NSF and OD fees, and increased loan loss provisions – all of which will be significant drags on earnings in 2010. Expense control and problem loan management will remain the top jobs for most banks.

**Improved margins:** Rates will rise in 2010, beginning late in the 2nd quarter or so, providing much needed margin relief for almost all banks.

**Modest improvement in commercial loan demand:** As the economy continues to recover, commercial lending will begin to rebound in many parts of the country, providing growth for those banks with the capacity to lend money.

**Hundreds of bank failures:** There's still a long way to go to clear out the zombies, especially in Florida, Washington, California, Georgia, and Arizona.

**More complex regulatory structure:** The Federal Reserve will likely be anointed as the "systemic risk" regulator, and we could see some version of a Consumer Financial Protection Agency.

**Payments innovation:** With consumers increasingly choosing easier and more secure deferred payments in the online environment, big banks will invest to build solutions in an attempt to compete with providers PayPal and Bill Me Later.

### What we got right last year:

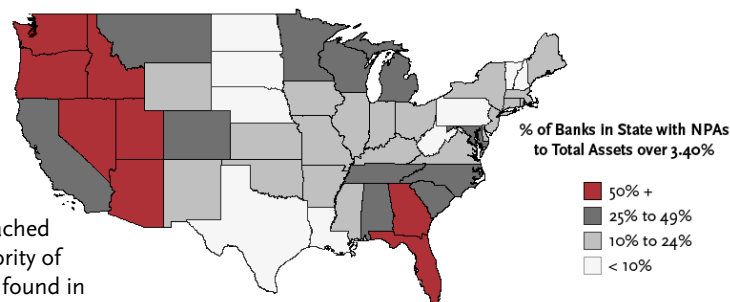
CPG expected to see conservative community banks gain share from larger banks as consumers and business sought safer havens for their monies. Billions in deposits flowed out of Bank of America, Citibank, and other banks that sought assistance from the government – and into stronger and smaller banks across the country.

### What we got wrong last year:

We expected to see Bank of America, through its acquisition of Merrill Lynch, move ahead of JPMorgan Chase in building a global banking powerhouse. We missed the mark relative to the extent of the problems that Merrill and Countrywide delivered to the Bank of America shareholders.

## Concentrations of Troubled Banks

Approximately two-thirds of all banks and thrifts saw the ratio of nonperforming assets to average assets increase between 12/31/08 and 9/30/09. At over 1,850 institutions, this ratio reached 3.40% or more. The majority of these institutions can be found in the mountain west and southeast.



**Potential Targets** – As shown in the map above, many banks and thrifts have seen nonperforming assets rise and their stock prices plummet as bad loans continue to sour their balance sheets. With credit losses not expected to peak until the second quarter of next year, we expect that some of these institutions will be acquired, either outright or with FDIC assistance.

Rank	Company Name	City, State	Price/Tangible Book 12/02/09 (%)	NPAs/Total Assets 12/02/09 (\$)	ROAE YTD (%)	Total Assets 3Q09 (\$000)
1	Synovus Financial Corp.	Columbus, GA	41.94	5.62	-45.54	34,610,480
2	First BanCorp.	San Juan, PR	19.24	8.42	-15.54	20,081,186
3	Citizens Republic Bancorp, Inc.	Flint, MI	29.65	5.00	-40.94	12,100,215
4	Sterling Financial Corporation	Spokane, WA	10.21	6.82	-59.46	11,898,854
5	Capitol Bancorp Ltd.	Lansing, MI	19.29	8.44	-37.02	5,323,324
6	Central Pacific Financial Corp.	Honolulu, HI	13.66	8.21	-45.38	5,171,510
7	Banner Corporation	Walla Walla, WA	18.97	7.36	-10.08	4,788,008
8	AMCORE Financial, Inc.	Rockford, IL	16.84	10.27	-111.04	4,365,383
9	Frontier Financial Corp.	Everett, WA	11.93	24.19	-99.65	3,771,390
10	Hanmi Financial Corporation	Los Angeles, CA	32.12	7.85	-46.77	3,457,490

Publicly traded banks and thrifts with total assets of \$3B or more with a price tangible book ratio below the 25th percentile, a YTD ROAE less than zero, and a ratio of nonperforming assets-to-total assets below the 25th percentile. Source: CPG analysis of data from SNL Financial, 2009. 78 banks qualified under the previous criteria when excluding the \$3B asset size cutoff as a criteria. To see the full list, visit [www.capitalperform.com/PressRoom/wires/Dec09/index.htm](http://www.capitalperform.com/PressRoom/wires/Dec09/index.htm).

**Potential Acquirers** – In contrast to those banks noted above, institutions that possess relatively healthy balance sheets are positioned to acquire struggling competitors at attractive prices. The institutions listed below have the means to make significant acquisitions in 2010.

Rank	Company Name	City, State	Total Assets 3Q09 (\$000)	ROAE 3Q09 YTD (%)	Leverage Ratio 3Q09 (%) <sup>1</sup>	NPAs/Tot. Assets 3Q09 (%)
1	Capital One Financial Corp.	McLean, VA	168,503,921	2.67	9.19	0.96
2	Northern Trust Corporation	Chicago, IL	77,926,946	13.29	9.02	0.39
3	People's United Bank	Bridgeport, CT	18,761,337	3.63	10.88	1.14
4	Commerce Bancshares, Inc.	Kansas City, MO	17,965,403	9.47	9.65	0.77
5	Valley National Bancorp	Wayne, NJ	14,231,870	8.23	8.46	0.68
6	SVB Financial Group	Santa Clara, CA	12,557,406	3.56	9.71	0.61
7	FirstMerit Corporation	Akron, OH	10,763,909	8.65	9.06	1.05
8	UMB Financial Corporation	Kansas City, MO	10,235,496	8.75	8.21	0.26
9	Signature Bank	New York, NY	8,601,252	8.13	9.80	0.68
10	NewAlliance Bancshares, Inc.	New Haven, CT	8,542,177	3.27	10.97	0.63

Financial institutions with total assets of \$5B or more ranked in the 75th percentile in terms of their ratio of nonperforming assets-to-total assets, with a leverage ratio greater than 8%, and a YTD ROAE greater than zero. 1. Leverage ratio is defined as core capital (tier 1) as a percent of average total assets. Source: CPG analysis of data from SNL Financial, 2009. To see the full list, visit [www.capitalperform.com/PressRoom/wires/Dec09/index.htm](http://www.capitalperform.com/PressRoom/wires/Dec09/index.htm).

## 2009 Year in Review

Happenings	
<b>A Hero or a Goat?</b>	In the fall of 2008, Bank of America Corp.'s Ken Lewis was being lauded for his company's opportunistic acquisition of Merrill Lynch. By April 2009, stockholders had voted to oust him as chairman. By May, regulators had forced a reorganization of the board. In the summer, Lewis was pilloried before Congress. Finally, in September, he announced his retirement, bringing the career of ABA Banker of the Year for 2008 to an ignominious end.
<b>Zombie Banks - Return of the Living Dead</b>	Last seen during the S&L crisis, zombie banks are once again prowling the financial services landscape. The 552 banks on the FDIC's problem institutions list are slightly over a third of the number listed during the height of the S&L crisis, but they still adversely affect the profitability of healthy institutions. The FDIC-imposed national rate cap on deposits, which goes into effect January 1, 2010, should help mitigate the adverse effects of these zombie banks.
<b>Do You Come Here Often?</b>	Tiger Woods is not the only one engaged in hanky-panky. IllicitEncounters.com, a U.K. website, said it has seen a huge increase in the number of financial workers signing up to have affairs after the collapse of the markets in October last year, and that "finance" continued to be one of the most represented professional areas on the site.
Trends	
<b>There's a Cloud to Every Silver Lining</b>	Sometimes overlooked amid all the concern about asset quality is the fact that banks have experienced a huge inflow of deposits. From year-end 2007 to September 30, 2009, deposits held by publicly traded banks and thrifts with between \$5 billion and \$1 trillion in assets increased by over \$340 billion. Now, bank managers need to worry about how they will hold on to these deposits when rates begin to rise and as funds move back into the stock market.
Regulatory Developments	
<b>Do As I Say, Not As I Do</b>	Under the banner of "consumer protection" Congress and the administration enacted, or sought to enact, a host of reforms including creating a Consumer Financial Protection Agency, limiting overdraft fees, and prohibiting certain credit card practices. A cynic might point out that the U.S. government, with a national debt that has been growing at a rate of \$3.84 billion per day since September 2007, may not be the best judge of what constitutes fiscally responsible behavior.
<b>In Sheila We Trust</b>	The industry crisis has led to jockeying for political influence among the regulatory agencies. With the Fed's reputation sullied and the OCC seemingly AWOL, Sheila Bair and the FDIC have emerged as a very potent force, sponsoring legislation to increase the power of the FDIC with requests to extend the resolution authority of the agency to holding companies and lobbying for authority to allow the FDIC to impose a 20% haircut on all secured creditors, including the 12 Home Loan banks, when resolving systematically important institutions that fail.
Hot Product	
<b>Mobile Deposit App - Image Checking</b>	USAA Federal Savings Bank launched a new iPhone application that allows customers to take a picture of a check and deposit it using their iPhone. As a one-branch bank with many of its seven million members active-duty military, USAA is by necessity at the forefront of mobile banking. Bank of America is working to bring this service to the civilian banking population with a similar app.
<b>Intuit/Turbo Tax</b>	Intuit recently integrated FinanceWorks, an online financial management platform that allows consumers to manage accounts across multiple institutions, and TurboTax to create a streamlined online tax preparation tool. Users are able to import their account activity directly into their tax returns, yielding a decrease in tax preparation time. This integration enables participating financial services companies to develop stickier customer relationships and also helps to increase deposits via a tax refund deposited directly to the consumer's account.

**Happy Holidays and Best Wishes for Success in 2010!**

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