

What To Expect in 2009

Bank of America Becomes Bank of The World – BofA's acquisition of Merrill Lynch in 2008 and additional acquisitions in 2009 (including overseas) will push BofA far ahead of JPMorgan Chase in building a global banking powerhouse.

Community Banks Gain Market Share

– long threatened by continued concentration of bank assets away from smaller institutions, community banks' conservatism wins them new money from consumers and businesses looking for less risk in their money managers.

The Consumer Loan Market Reverses Course

– after 20 years of concentrating consumer loan share among a handful of providers, small banks get back into the consumer lending business. For many consumers, these loans have been held outside their primary bank relationship, but smaller banks will give their deposit customers good reason to bring this business back home.

Tougher Regulations – the Treasury Department will impose mandatory reporting on institutions participating in the Capital Purchase Program, requiring institutions to report how they are using the public investment funds. Business decisions at participating banks will be subject to scrutiny by regulators and politicians for general consistency with the purposes of program.

New Mortgage Lending Regulations

– low rates will drive a surge in refinance activity in the very near term, but expect new regulations to fully eliminate riskier types of mortgage lending (no more stated income loans!).

Trouble for Many Credit Unions

– as auto loan losses mount and auto sales flounder, credit unions will face great challenges to profits and growth in 2009.

Decreasing Power of Foreign Banks (on U.S. soil)

– foreign-based banks grew assets at a rapid pace in the U.S. since 2000, but severe economic troubles on their home fronts will dampen U.S. growth prospects in 2009.

Far Fewer Perks for Executives – directors across the industry will eliminate executive perquisites (private plans, exclusive club memberships, lavish trips, etc.). However few banks (if any) will go as far as AIG or the auto makers in reducing CEO salaries to \$1 for 2009.

Fire Sales – the “firesales” label has taken on a whole new meaning since we first published our forecasted M&A targets list last year. With the industry expected to consolidate even further during 2009, we believe that the ten institutions listed below will be among the first to sell (or possibly fail).

Rank	Company Name	City, State	Price Change 12/31/07- 12/05/08 (%)	Stock Price 12/01/08 (\$)	Total Assets 3Q08 (\$000)
1	Vineyard National Bancorp	Corona, CA	-99.32	\$0.07	\$2,098,742
2	Team Financial, Inc.*	Paola, KS	-97.57	\$0.36	\$765,887
3	Peoples Community Bancorp, Inc.	West Chester, OH	-95.58	\$0.62	\$721,205
4	BankUnited Financial Corporation*	Coral Gables, FL	-95.51	\$0.31	\$14,119,511
5	Capital Corp of the West	Merced, CA	-94.08	\$1.15	\$1,873,208
6	Beverly Hills Bancorp Inc.	Calabasas, CA	-92.22	\$0.40	\$1,302,600
7	AmericanWest Bancorporation	Spokane, WA	-93.08	\$1.22	\$1,991,127
8	CapitalSouth Bancorp	Birmingham, AL	-93.28	\$0.61	\$695,890
9	FirstFed Financial Corp.	Los Angeles, CA	-91.40	\$3.08	\$7,355,296
10	Rainier Pacific Financial Group, Inc.	Tacoma, WA	-89.53	\$1.55	\$840,649
SNL Bank & Thrift Index			-51.70	NA	NA

*Have not yet reported financials for 3Q08. Total Assets shown are as of June 30, 2008.

Companies traded on AMEX, NASDAQ, or NYSE.

Source: SNL Financials as of 12/1/2008.

Note: This list excludes companies that have failed or that have been acquired, such as National City.

Growth of Strong Regional Players

Now that BofA, Chase, and Wells are all in the process of digesting their recent acquisitions, who could potentially acquire one of our “firesale” candidates? We have compiled a list of capital-rich and profitable U.S. banks (based on third quarter data) in an attempt to answer that question. Listed below are ten institutions that appear to have the financial wherewithal to make purchases during 2009.

Rank	Company Name	Tier 1 K Ratio (%) ¹	Total Assets 3Q08 (\$M)	ROAE 3Q08 YTD (%)	LLR/NPAs 3Q08 (%)	Mkt Cap (\$M) as of 21/09/08	TARP Partici- pant ²
1	FirstBank Holding Company	14.91	9,319.9	20.60	226.37	NA	
2	UMB Financial Corporation	13.88	9,337.3	11.45	593.62	1,881.9	No
3	CVB Financial Corp.	11.41	6,422.0	14.90	215.79	899.3	Yes
4	Bank of Hawaii Corporation	11.14	10,335.0	26.22	2050.02	1,992.9	No
5	Hancock Holding Company	10.77	6,775.7	13.79	239.61	1,278.2	No
6	Commerce Bancshares, Inc.	10.65	16,961.9	12.14	296.02	3,137.8	No
7	Cullen/Frost Bankers, Inc.	10.34	14,145.5	13.21	192.76	2,959.6	No
8	FirstMerit Corporation	10.30	10,687.1	12.84	163.10	1,661.6	No
9	SVB Financial Group	9.94	7,750.0	14.67	659.57	1,1070.0	Yes
10	NBT Bancorp Inc.	9.52	5,335.2	14.23	240.18	857.6	No

Institutions with total assets of \$5B or more ranked in the 75th percentile in terms of their ratio of loan loss reserves-to-nonperforming assets and with a YTD ROAE above the median. This analysis excluded mutual holding companies.

1. “Tier 1 Capital Ratio” defined as the ratio of Tier 1 capital to risk-adjusted assets.

2. Indicates whether or not the institution has opted into TARP. A blank cell indicates that the institution does not yet qualify for TARP funds. Source: CPG analysis of data from SNL Financial, 2008.

2008 Year in Review

Happenings	
The Way of the Dodo	Like the plump, flightless bird that became the archetype of extinct species, the bulge bracket investment bank has apparently disappeared from the financial services landscape, a victim of the mortgage meltdown and excessive leverage. Bear Stearns was “sold” to JPMorgan Chase for a song, Lehman Brothers failed outright, Merrill Lynch flung itself into the arms of Bank of America, and Goldman Sachs and Morgan Stanley applied for permission to become bank holding companies.
Lose Billions but Still Get Paid Millions	Former CEOs Angelo Mozilo of Countrywide, Charles Prince of Citigroup, and Stanley O’Neal of Merrill Lynch all managed to collect compensation packages worth millions while their respective institutions lost billions in the subprime mortgage crisis.
Fool’s Gold	This term may have occurred to CEO Ken Thompson after he found himself out of a job and Wachovia Corp was forced into a shotgun marriage with Wells Fargo & Co. Thompson and Wachovia’s respective ruination was brought about in part from credit problems in the mortgage portfolio of Golden West Financial Corp. which Wachovia Corp. acquired in May of 2006.
Trends	
Shadow of the Great Depression	Among a seeming blizzard of bad economic news, one statistic seemed especially chilling: 10 percent of one-to-four family mortgages were either in foreclosure or delinquent as of the third quarter, up from 7.3% a year ago. Economists expect increases in unemployment to cause the foreclosure and delinquency rates to rise even higher in 2009.
A Buyers Market	While the number of M&A deals completed in 2008 versus 2007 declined, the median Price/Book multiple paid also declined, dropping from 204.5 in 2007 to 162.9 in 2008. M&A activity will increase and multiples will continue to fall as the challenging environment forces more institutions to merge with stronger competitors.
Regulatory Developments	
Fannie Mae, Freddie Mac, Uncle Sam	The long-running public policy discussion concerning the extent of the implicit Treasury guarantee of the housing GSEs was settled in September when the U.S. government explicitly took over Freddie Mac and Fannie Mae. Old timers will remember that this was not the first time Fannie Mae stumbled badly and skeptics might wonder if the concepts of “Special Purpose Entities” and “For Profit” might indeed be irreconcilable.
“TARP” the Herald Angels Sing...	In keeping with the spirit of the holidays, the U.S. Treasury Department created the \$250 billion Capital Purchase Program to increase liquidity and capital in financial institutions. Other taxpayer-backed gifts to the industry included an FDIC guarantee of unsecured debt and full deposit insurance coverage for noninterest bearing deposit transaction accounts of any size.
Hot Product	
Cash, Credit, or Cell Phone?	Before long, retailers will be adding ‘cell phone’ to the phrase, ‘cash or credit’. Phones containing Near Field Communication (NFC) chips were tested in London earlier this year to pay fares on trains and buses with great success. Visa is currently testing ‘contactless payment trials’ in which cell phones equipped with NFC technology are used to make payments at retailers.
Biggest Improvement	
Stock Price	Capitol Federal Financial (MHC) of Topeka, KS experienced the greatest increase in stock price among companies with \$5 billion or more in total assets. The price of a share of Capitol Federal Financial’s stock rose 47.3% from EOY 2007 to December 5th, 2008.
EPS	The largest increase in organic growth in EPS could be seen at United Bankshares, Inc. of Charleston, West Virginia. The company’s earnings per share increased by 76.5% between EOY 2007 and December 9th, 2008.

Please call us at 202-337-7870 or visit our website for more information on our merger integration, strategic planning, and Board advisory and education services.

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