

The Financial Services Industry: One Year Later

Lehman Brothers. Merrill Lynch. Washington Mutual. Wachovia. Four institutions whose departure from the scene marked the beginning of a tempestuous twelve months. And we're not out of the woods yet – perhaps not by a long shot. CPG takes a look at how the events of the past year have affected institutions of different sizes – and what each group should expect going forward.

Community Banks & Thrifts (Total Assets of \$5B or Less)

Because credit quality problems in commercial loans lagged those in residential real estate loans, troubled community banks remain troubled – and at a disadvantage to other institutions who have a head start on working through problem loans and a perceived

advantage in accessing capital markets due to their “too big to fail” status.

The industry's ongoing consolidation has hit community banks the hardest. Of the 110 institutions that have failed, eighty percent have been community banks and thrifts. More bank failures are expected in the next twelve months. The sooner the FDIC acts to close failed institutions, the better for the remaining community banks and thrifts. We expect 2010 to be a difficult year for this sector.

Mid-Size Regional Banks & Thrifts (Total Assets of \$5B to \$20B)

Healthy mid-size regional banks have benefited from opportunities to acquire troubled competitors, the customers of troubled or distracted competitors, and a greater share

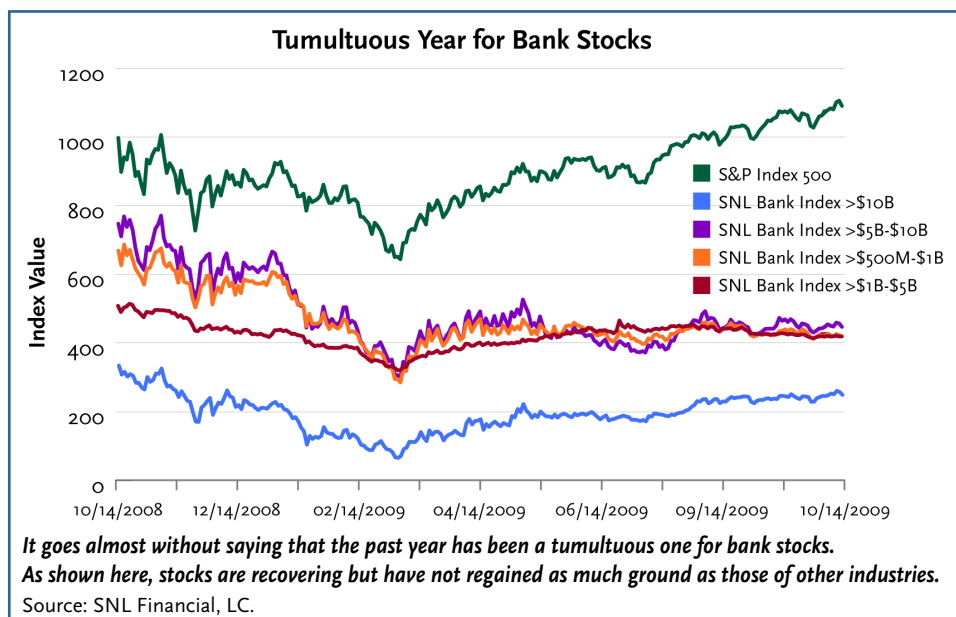
of wallet from existing customers who have moved money to perceived safer havens.

The window in which banks can take advantage of these opportunities will narrow in the coming year. With the stock market rebounding, deposit retention will become more challenging. We expect to see an increased pace of consolidation in the mid-sized sector and an aggressive approach toward capturing top-quality commercial loan business from smaller banks and troubled large institutions. A handful of mid-sized banks will capture significant market share over the coming year.

Large National Institutions (Total Assets of \$20B+)

The key events of this past year for the largest institutions have already been heavily documented in the press, as their actions have been under a great degree of public scrutiny.

Many large institutions are still preoccupied with raising private capital, problem credits, and absorbing significant acquisitions. Overall, the large bank sector has made significant progress working through its credit problems – but there's still work to be done. As the economy begins to recover, the strongest of the larger banks are well positioned to target growth sectors: investment banking, Gen Y consumers, the retirement market, the healthcare sector, and the international trade market. We expect many large banks to post handsome returns in 2010.



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Waiting for the FDIC - With Good Reason

The effective core deposit premiums paid in the four largest FDIC-assisted transactions in 2009 compare very favorably to premiums paid in the acquisition of healthy banks, where deposit premiums have typically ranged from 10-30%. As FDIC-assisted transactions are free of many of the cultural integration issues that often come with healthy acquisitions, these transactions are an economical and effective means for banks to expand their franchises. If only the FDIC would move faster to dispose of the hundreds of troubled

banks around the country. Until that happens, the market for healthy bank acquisitions will remain comatose.

Two bid structures are evident among four of this year's largest assisted deals:

1. No Up-Front Deposit Premium/Higher Credit Risk: BBVA Compass (acquired Guaranty Bank) and the Private Investor Group (acquired BankUnited) did not pay explicit deposit premiums. However, under loss share arrangements, CPG estimates that,

in a maximum credit loss scenario, the Private Investor Group would pay the highest effective premium (10.11%) and BBVA Compass would pay the second highest (9.08%) of the four transactions we reviewed.

2. Up-Front Deposit Premium/Lower Credit Risk: BB&T Corp. (acquired Colonial Bank) paid the highest explicit core deposit premium (3.49%), but even under a maximum credit loss scenario, the bank's losses are capped at \$500 million which equates to a 6.63% effective

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Waiting for the FDIC - With Good Reason (continued)

tive core deposit premium. BB&T Corp. also acquired 346 branches, more than double that of the next largest deal analyzed. MB Financial (acquired Corus Bank) paid a small explicit core deposit premium (0.26%), but did not assume any toxic assets, giving the bank the lowest effective premium under a maximum credit loss scenario (0.26%).

Any way you slice it, these premiums are well below the 10-30% typically realized in healthy bank acquisitions.

Select Government Assisted Transactions in 2009						
Transaction	Completion Date	Branches Transferred	Core Deposits Transferred (\$000)	Estimated Assets Covered Under Loss Share (\$000)	Explicit Core Deposit Premium (%)	Estimated Effective Core Deposit Premium (%) ¹
MB Financial Inc./ Corus Bank, NA	9/11/2009	11	4,904,627	0	0.26	0.26
BBVA Compass/ Guaranty Bank	8/21/2009	162	9,414,007	10,195,000	0.00	9.08
BB&T Corp./Colonial Bank	8/14/2009	346	15,915,985	15,000,000	3.49	6.63
Private Investor Group/ BankUnited, FSB	5/21/2009	86	6,331,345	7,700,000	0.00	10.11

Source: CPG analysis based on data taken from SNL Financial, LC, 2009, FDIC press releases, company press releases, and a Aug. 31, 2009 Wall Street Journal article.
1. The estimated effective core deposit premium calculated by dividing the sum of the deposit premium and the estimated projected loss by the core deposits transferred.

Social Networking & Media: Getting Started



There's been a lot of talk lately about social networking and media – and yet many banks are still on the sidelines, waiting to get in the game. Figuring out what social media strategy is right for your institution may not be an easy task, but here are a few things to think about as you weigh social networking and media options. Bear in mind this list is not exhaustive – but it should help to get you moving in the right direction.

1. Get started by signing yourself up for every tool available

This may seem like an obvious suggestion, but far too often executives talk about the latest hot topics without any real-life experience. The best thing you can do is sign yourself up for accounts with Twitter, Facebook, LinkedIn, Plaxo, and any other social networking site you find interesting. You don't have to divulge a lot of information about yourself – unless you want to – and you can check out how the competition/early adopters are using these services.

2. Make sure your institution has something to say

Once you've signed up for a few social networking sites, take a long hard look at how other banks are presenting themselves online. Most of the big banks can be found on the social networking sites and are using them predominantly to share marketing messages and to answer customer service questions.

Think long and hard regarding how your institution's participation in a social networking site enhances the customer experience and/or builds your brand. Plan very carefully what and how you will communicate.

3. Explore many options

The world of social media and networking is ever expanding and changing. Not only does it include social networking sites, but it includes blogs and private online community sites such as American Express' openforum.com and Bank of America's Small Business Online Community. These community sites not only empower small businesses to share information to help them build their businesses, but they give their organizers the opportunity to listen to the concerns of their customers. Two-way communication is the goal.

4. Be prepared for the long-term care and feeding of social networking sites

Once your company starts its social networking activities, it has to support the commonly accepted customer experience expectations – immediate responses and nearly round the clock coverage (although some big banks make it clear they only provide 9am – 5pm support on Twitter). The good news is that there are firms out there that will provide this service for you if you can't staff this yourself.

5. Think about how you will measure success

Social media success can be measured in many different ways. In the short-term, you probably won't be successful using tried and true return on investment metrics. Instead, look at number of followers/ friends/ contacts, number of postings/ messages, main-stream media coverage, and some correlation to account profitability over time of the customers with whom you engage in social media.

Social Networking Stats

Nearly half of all the bankers not using new/ social media admit that they don't quite "get it", and 37% feel that these techniques aren't a good fit for their customers.¹

Not a good fit? Really?

- ▶ There are 300 million Facebook users.²
- ▶ Social Networks and blogs are the 4th most popular online activities, more popular than personal email.
- ▶ Adoption rates:
 - Radio – 38 years for 50MM users;
 - TV – 13 years for 50MM users;
 - Internet – 4 years for 50MM users;
 - Facebook – 9 months for 100MM users.³
- ▶ The average Twitter user is 31 years old.⁴

Sources:

1) ABA Banking Journal survey, May 2009

2) Facebook.com

3) retailmarketingblog.com

4) arstechnica.com

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1025 Thomas Jefferson St., NW, Suite 310 East, Washington, DC 20007 phone: 202/337-7870 www.capitalperform.com
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