



SNL Bank & Thrift Daily™

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Wednesday's Market

Banks, thrifts down in wake of FOMC decision

by *Lindsey White*

Banks lost early gains to close in the red Wednesday, Jan. 26, as several companies reported quarterly results and the Federal Reserve's monetary policy committee voted to maintain the federal funds rate.

The SNL Bank Index slipped 0.27% to 297.83 and the SNL Thrift Index declined 0.53% to 582.98.

Meanwhile, the broader markets posted small gains. The Dow Jones Industrial ticked up 0.07% to 11,985.44, the NASDAQ Composite Index rose 0.74% to 2,739.50, and the S&P 500 advanced 0.42% to 1,296.63.

The Federal Open Market Committee said Wednesday that it is holding the target range for its federal funds rate at zero percent to 0.25%. The committee also said it will continue its quantitative easing activities, expanding its balance sheet through purchases of a total of \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011.

Donald Musso, president of FinPro Inc., said the FOMC's decision is a clear indication that despite some positive signs, the economy is still on tepid footing. "I think this is definitely a regional recovery. We still have parts of the country where we have clients that are reeling, and we're still seeing downward valuations when we get new appraisals in. We have a few markets that seem to have turned the corner and are picking up, but we still think we're going to have another 5% or more down in real estate values," Musso told SNL.

During his State of the Union address Tuesday evening, President Barack Obama took an optimistic stance on the economic recovery, noting that "the stock market has come roaring back" from the recession and corporate profits are up.

Musso called Obama's positive take on the recovery "grand embellishment."

"2011 is going to be the year of the haves and the have-nots," Musso said. "For the have-nots, it's going to get a lot worse," he added, noting the high level of unemployment.

Musso said regulation will determine which category banks join. "If the current regulatory environment persists, where they keep asking us for an ever-increasing amount of capital and they're harshly looking at every loan, I would say it doesn't bode well for banking in the near term," Musso said. "If they let up on the pedal a little bit and allow banks some breathing room to recover, I think banks can help lead the way out of this mess."

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FOMC coalesces around bond-buying strategy, but unity could be short-lived

by *Robb Soukup*

The first Federal Open Market Committee statement of 2011 showed new voting members falling in line behind the Fed's quantitative easing policies, as the committee looked to strike a stable pose.

In its statement, the committee announced that it is holding its targeted federal funds rate between zero percent and 0.25% and continuing its program of purchases of longer-term Treasury securities that will eventually total \$600 billion. It maintained a skeptical view of the economy and cited trends that it said would likely mean "exceptionally low levels for the federal funds rate for an extended period."

The FOMC statement, always carefully crafted and religiously dissected by markets, was particularly conservative. Following criticism at home and from officials abroad following its initial announcement of the quantitative easing policy, the Fed wanted to throw its weight behind its current policy stance, according to State Street Global Advisors Chief Economist Christopher Probyn.

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Wednesday's Market *continued*

Obama also proposed a five-year freeze on domestic spending that will require "painful cuts" and target tax breaks for the wealthy.

Christopher Bellini, partner and co-chair of Gibson Dunn & Crutcher's Financial Institutions Group and a former Federal Reserve attorney, said the spending freeze could cause government agencies like the SEC and the CFTC, which rely on appropriations, to delay robustly implementing the Dodd-Frank statutory framework until they have adequate funding to do so.

Bellini told SNL that he was surprised the State of the Union barely addressed the financial industry. "Basically he has Dodd-Frank in place and he's not going to give on it. The only thing the Republicans want to do is try and either repeal it or make substantial changes to its implementation," Bellini said.

A trio of Midwestern banks posted mixed results for the fourth quarter of 2010. Kansas City, Mo.-based UMB Financial Corp. dropped 3.29% to \$41.48 after reporting net income of \$19.0 million, or 47 cents per share, for the fourth quarter, compared to \$23.9 million, or 59 cents per share, in the year-ago quarter. Despite a spike in expenses related to recent acquisitions, executives pointed to stable credit quality and modest loan growth during a conference call to discuss the results.

First Midwest Bancorp Inc. shares tumbled 5% to \$11.97. The Itasca, Ill.-based company reported a fourth-quarter net loss applicable to common shareholders of \$30.3 million, or 41 cents per share, compared to \$39.5 million, or 73 cents per share, in the year-ago period. President and CEO Michael Scudder said during a conference call that absent the write-down on the company's construction and development portfolio, the earnings performance would have been much closer to expectations. Going forward, First Midwest plans to dispose of the assets through retail sales rather than a bulk sale, Scudder said, because the company believes it will be able to get better value dealing with the assets on an individual basis.

Troy, Mich.-based Flagstar Bancorp Inc. dipped 1.21% to \$1.63 after reporting a fourth-quarter net loss available to common stockholders of \$192.1 million, or 74 cents per share, compared to \$71.6 million, or \$1.53 per share, in the year-ago quarter. During a conference call Wednesday, Chairman, President and CEO Joseph Campanelli said Flagstar sold a package of \$474 million of nonperforming residential loans during the quarter and has marked another \$104.2 million of these loans as available for sale in hopes of having a deal in place by the end of the first quarter of 2011.

Elsewhere in the country, Tulsa, Okla.-based BOK Financial Corp. reported fourth-quarter net income attributable to the company of \$58.8 million, or 86 cents per share, compared to \$42.8 million, or 63 cents per share, in the year-ago period. Shares fell 3.05% to \$53.34.

After reporting fourth-quarter net income of \$149.8 million, or 34 cents per share, compared to \$154.9 million, or 41 cents per share, in the year-ago period, shares of Westbury, N.Y.-based New York Community Bancorp Inc. declined 2.78% to \$18.16. During a conference call to discuss the results, President and CEO Joseph Ficalora told analysts to anticipate loan growth in 2011.

IBERIABANK Corp. slumped 2.80% to \$57.92. The Lafayette, La.-based company reported fourth-quarter 2010 earnings available to common shareholders of \$12.8 million, or 48 cents per share, compared to \$112.9 million, or \$5.56 per share, in the year-ago quarter. During a conference call, IBERIABANK executives outlined their plans to remain disciplined as they hunt for deals and seemed confident that they will find attractive opportunities to put the company's excess capital to work.

Cullen/Frost Bankers Inc. reported fourth-quarter 2010 net income of \$53.1 million, or 87 cents per share, compared to \$51.5 million, or 86 cents per share, in the year-ago period. Shares of the San Antonio-based company dropped 4.66% to \$58.92 by the closing bell.

Trustmark Corp. President and CEO Gerard Host said on a conference call Wednesday that the Jackson, Miss.-based bank is focused on M&A rather than increasing its dividend — the payout ratio of which is about 58%, high on a historical basis — or launching another share buyback program. Shares fell 2.32% to close the day at \$24.81. On Tuesday, Trustmark reported fourth-quarter 2010 net income available to common shareholders of \$25.2 million, or 39 cents per share, compared with \$13.9 million, or 23 cents per share, in the year-ago quarter.

Out West, Sterling Financial Corp. shares jumped 3.31% to \$19.69 a day after the Spokane, Wash.-based company reported a fourth-quarter net loss attributable to common shareholders of \$642.7 million, or \$12.79 per share, compared to a net loss of \$333.1 million, or \$423.17 per share, in the year-ago quarter. President and CEO J. Gregory Seibly told analysts during a conference call Wednesday that the company's "de-risking" efforts over the past year have helped notably reduce troubled assets and narrow losses, bringing Sterling closer to recovery.

Lacey, Wash.-based Anchor Bancorp shares were unchanged from their \$10 opening price Wednesday, the company's first day of trading on the NASDAQ Global Market. Unit Anchor Mutual Savings Bank completed its mutual to stock conversion to become Anchor Bank on Tuesday.

In other economic news Wednesday, the Mortgage Bankers Association said the market composite index of its weekly mortgage applications survey fell 12.9% week over week on a seasonally adjusted basis during the week ended Jan. 21. On an unadjusted basis, the index declined 12.0% compared with the previous week. The results do not include an adjustment for the Martin Luther King Jr. Day holiday.

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development said new-home sales surged 17.5% in December 2010 to a seasonally adjusted annual rate of 329,000 from a revised November 2010 rate of 280,000.

Market prices and index values are current as of the time of publication and are subject to change.

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