

# The Changing Landscape of Financial Services



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# The Changing Landscape - Recap

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- Lots of money chasing yield
- New, exotic securities created
- Securities sold to investors and held by banks
- Securities structured with ST funding and LT assets
- “Originate-to-Securitize” mentality
- Asset values decline
- Liquidity concerns appear
- Crisis!!

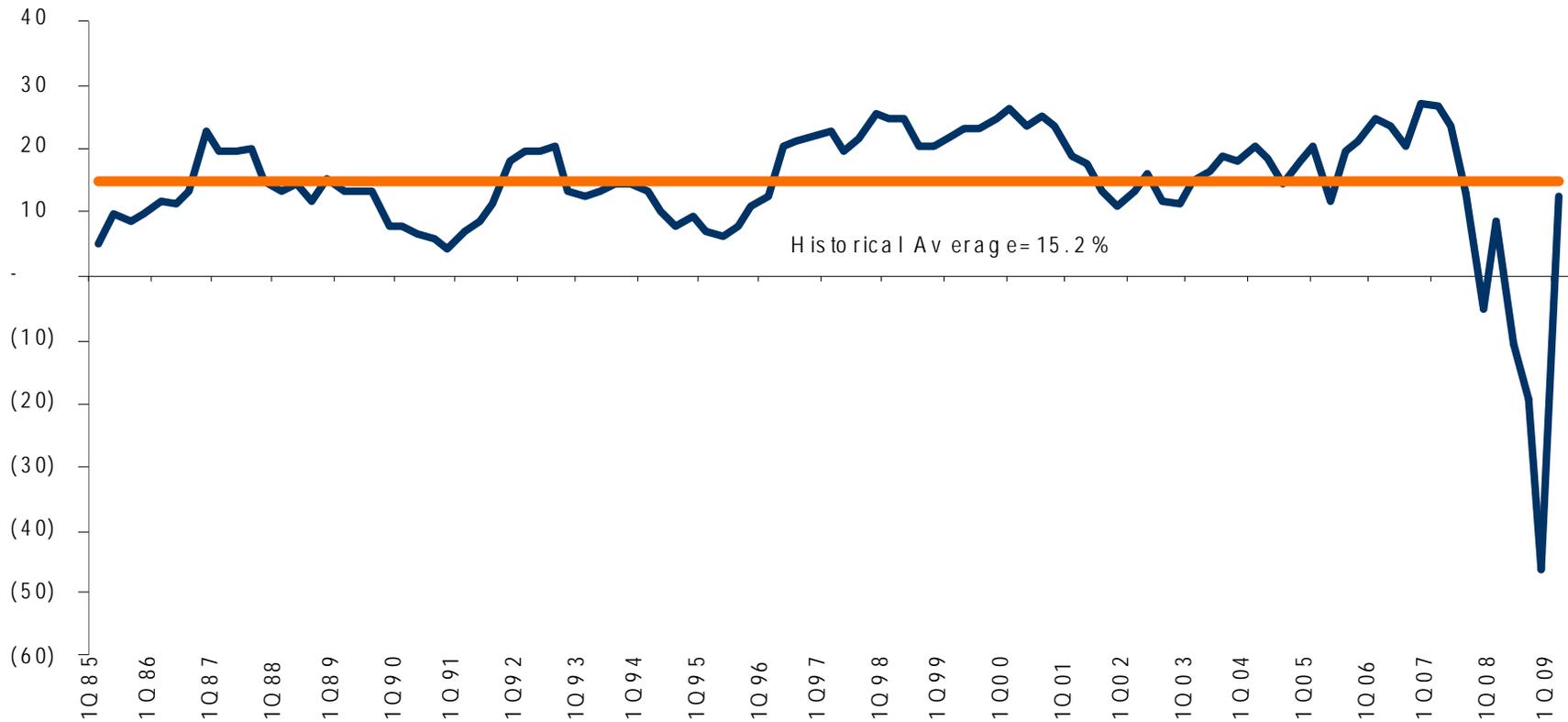
# The Changing Landscape - Key Points

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- The financial services industry is very cyclical; and has gravitated to more risk-taking over time
- Severity of '07 – '08 downturn caused extreme competitive turmoil
- Cyclical rebound appears to be underway, though challenged economy equals a bumpy road
- Regulatory environment uncertain – consumer protection, systemic risk

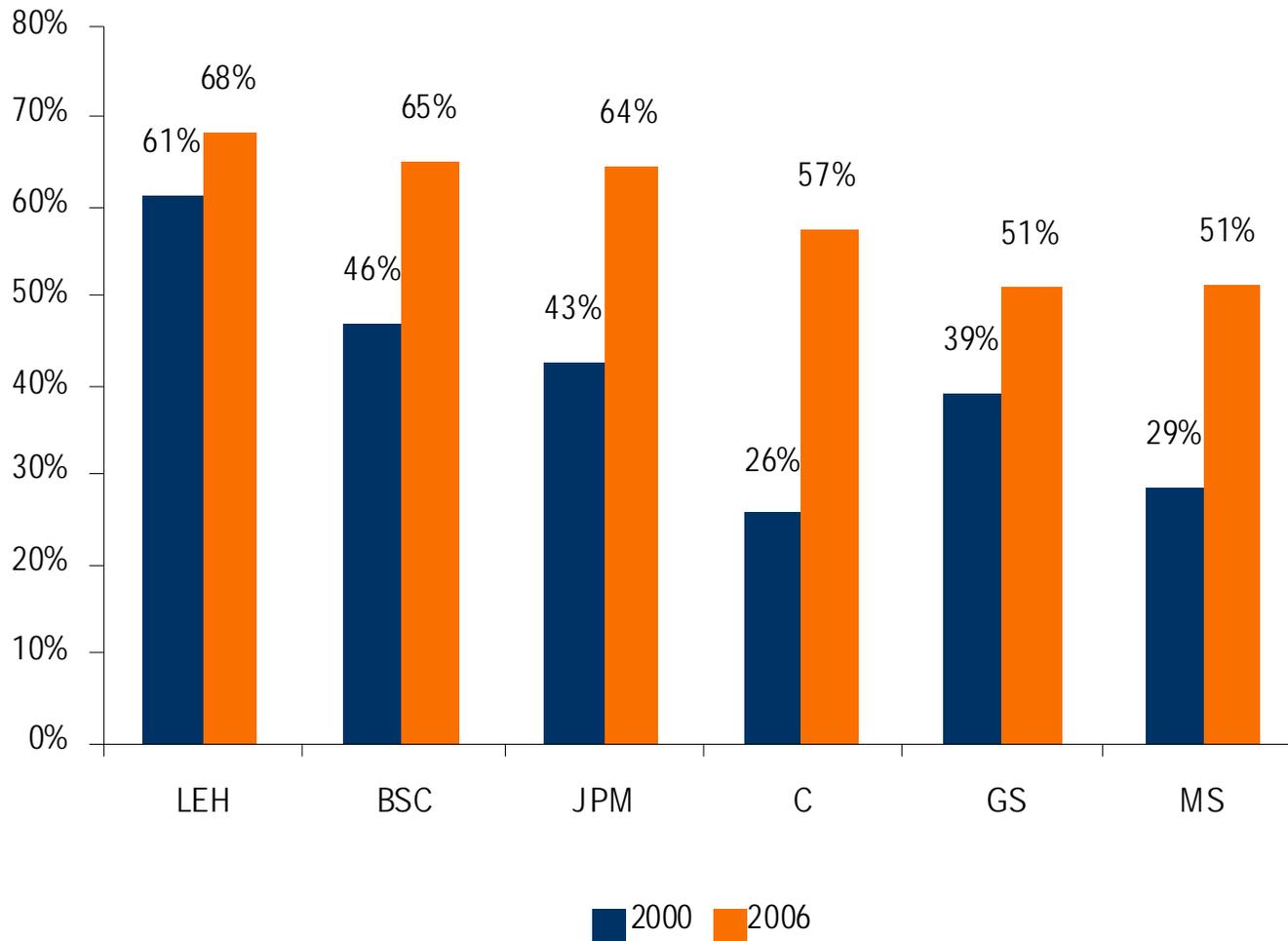
# The Industry is Highly Cyclical

**Historical Return on Common Equity**



# Risk Business More Important

Trading Revenue as a % of Net Revenue



# Industry Consolidation | Too Much?

## Yesterday's Banks vs. Today's 'Full-Service' Banks

### Predecessor Investment & Commercial Banks

Alex Brown	Chemical
Bear Stearns	Citicorp
Blythe Eastman	Deutsche Bank
Bowles Hollowell Connor	First Union
Cowen & Co.	Fleet
Dean Witter	JP Morgan
Dillon Read	Manufacturers Hanover
DLJ	NationsBank
Drexel	U.S. Bancorp
EF Hutton	Wachovia
First Boston	Wells Fargo
Goldman Sachs	Piper Jaffray
Hambrecht & Quist	Robertson Colman
J.C. Bradford	Robinson Humphrey
Kidder Peabody	Salomon Brothers
Lazard Freres	Shearson Hayden Stone
Lehman Brothers	Smith Barney
LF Rothschild	UBS
Loeb Rhodes	White Weld
Merrill Lynch	Bank of America
Montgomery Securities	BankBoston
Morgan Stanley	Bankers Trust
Paine Webber	Chase Manhattan

### U.S. Universal

Bank of America  
Citigroup  
JPMChase

### European Universal

Credit Suisse  
Deutsche Bank  
UBS

### U.S. Investment Banks

Goldman Sachs  
Morgan Stanley

### Specialized/Niche

Greenhill  
Lazard Freres  
Thomas Weisel  
U. S. Bancorp Piper Jaffray  
Wells Fargo

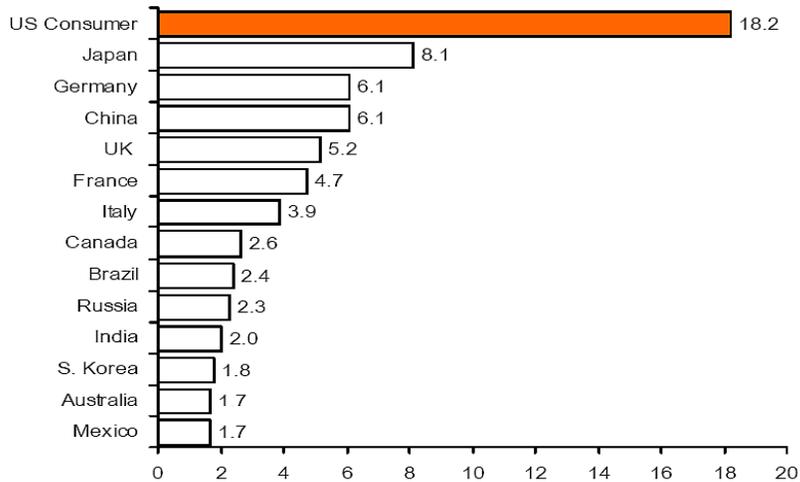
# Further Consolidation?

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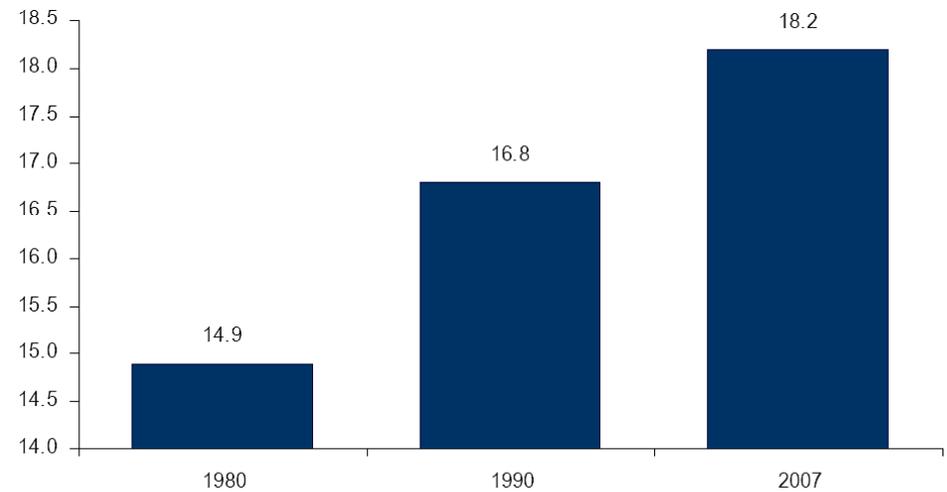
- FDIC Problem Bank List largest number of “troubled banks” since 1994 (416).
- Up from 305 in 1Q09 and 252 in 4Q08
- Healthy banks will seize opportunity to build retail banking business by assuming assets of failed banks.
- Some analysts predict 500 to 1,000 bank failures through 2011.
- More deposits consolidated into a smaller number of firms and more job losses for financial services employees.

# Importance of U.S. Consumer

(percent share of global GDP: 2007)

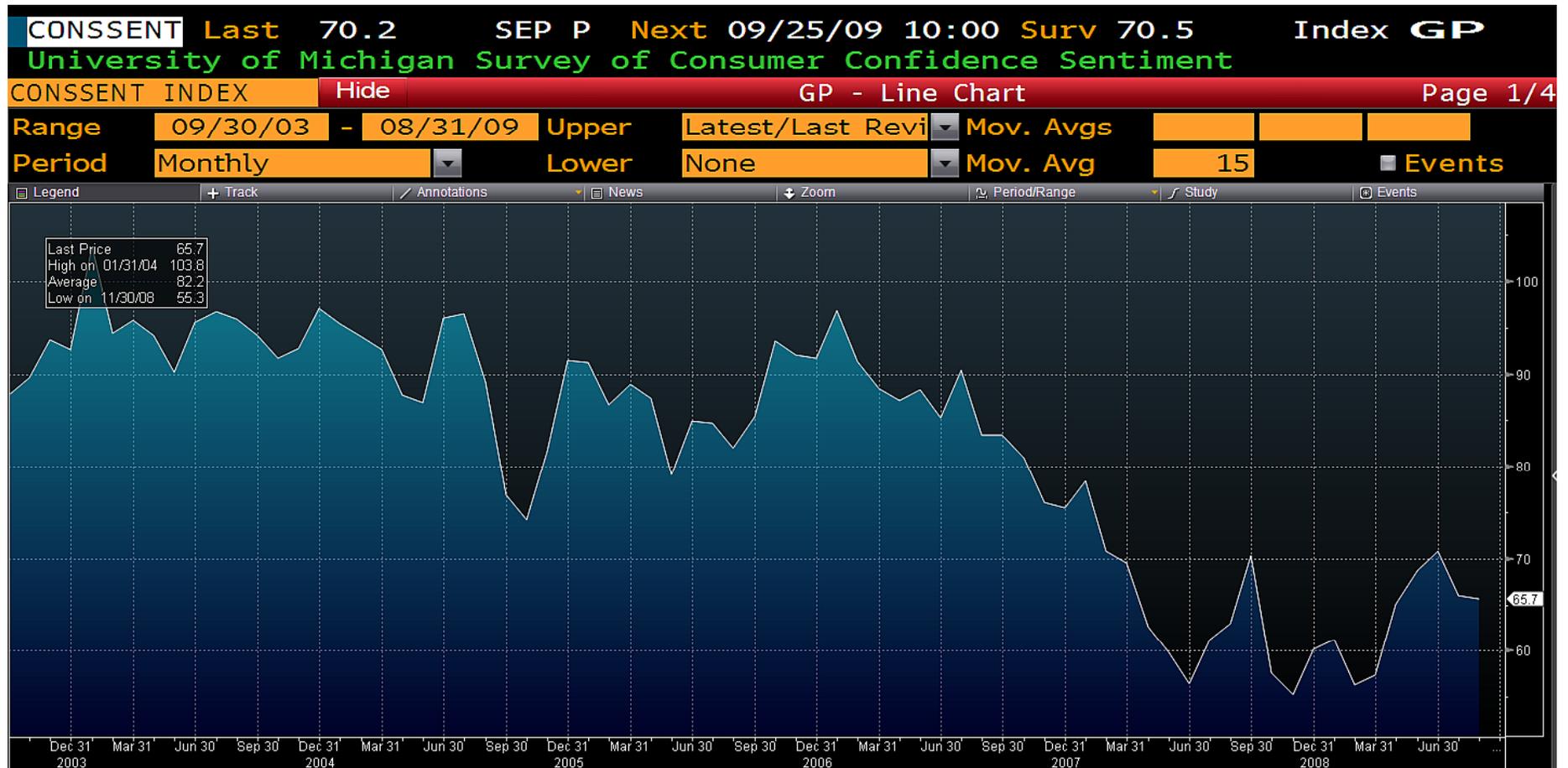


US Consumer as a share of World GDP (percent)



U.S. consumer very important for global GDP growth

# Getting Back on Track...

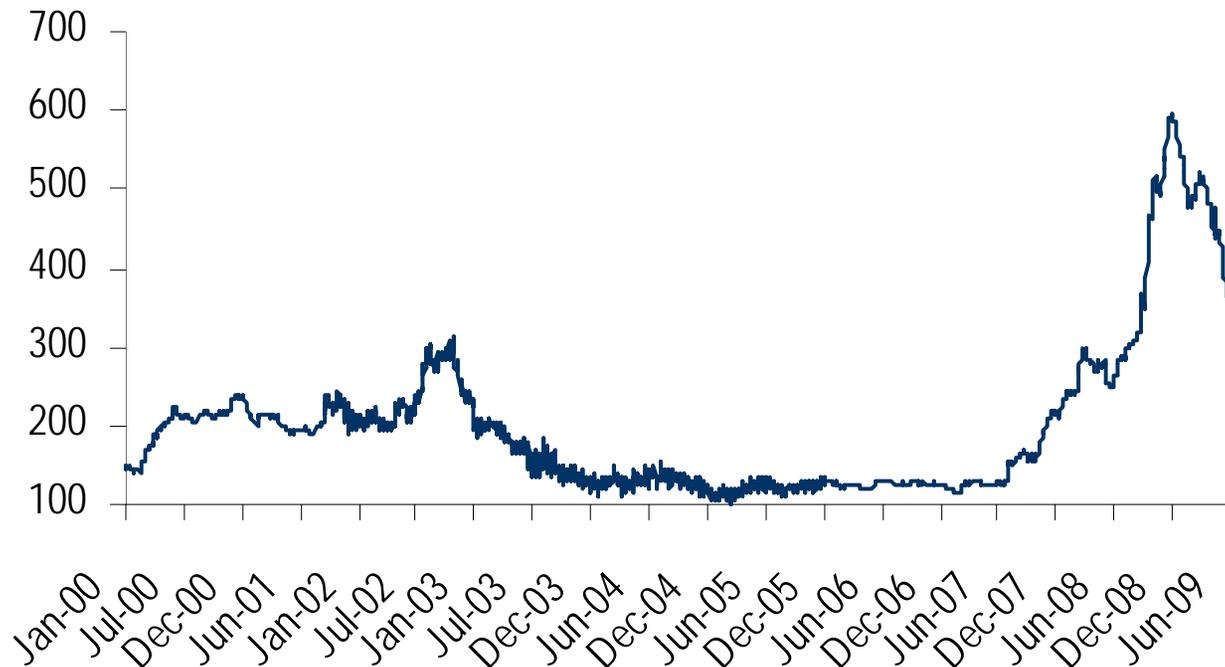


# High Grade Spreads Narrowing

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## Credit Spreads:

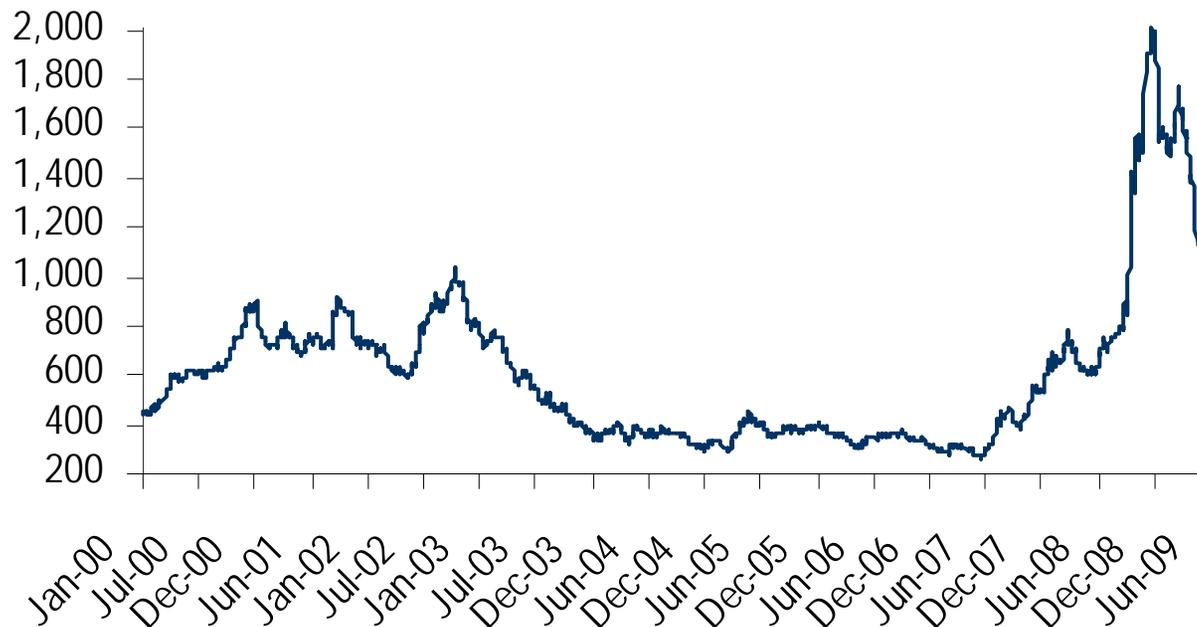
Broad Investment Grade Index vs. 10-Yr Treasury, Jan. 2000 – June 2009



# High Yield Spreads Narrowing

## Credit Spreads:

High Yield Index vs. 10-Yr Treasury, Jan. 2000 – June 2009



# Recent Performance

BAC US Equity		95) Customize		96) Output		97) Actions	
Peers	Bloomberg Peers	Region	Global	Closest			
Theme	*Custom Theme	Add Column					
Name	Last Px	Chg Pct 1D	Ret YTD Pct	NI T12M ↑	LF Tot Cash	EPS - 1 Yr Gr Y	
Average	70.85	0.05%	25.78%	297.23M	56.40B	-47.27%	
BANK OF AMERICA CORP	17.63	0.11%	25.75%	6.86B	350.76B	-83.28%	
1) JPMORGAN CHASE & CO	44.95	-0.02%	44.76%	6.09B	246.19B	-80.93%	
2) WELLS FARGO & CO	28.49	-1.01%	-1.12%	5.31B	36.61B	-70.95%	
3) GOLDMAN SACHS GROUP INC	183.18	0.95%	119.29%	3.97B	22.18B	-82.27%	
4) ROYAL BANK OF CANADA	57.02	-0.23%	64.14%	3.14B	15.38B	-19.58%	
5) US BANCORP	22.76	1.43%	-8.45%	1.91B	6.38B	-34.15%	
6) AMERICAN EXPRESS CO	34.77	-0.66%	92.97%	1.83B	15.61B	-29.26%	
7) HSBC HOLDINGS PLC	730.00	1.78%	30.76%	1.35B	255.25B	-70.74%	
8) BB&T CORP	29.25	1.21%	12.51%	1.18B	2.50B	-13.88%	
9) BANK OF NEW YORK MELLON	30.30	-1.43%	8.79%	1.15B	67.33B	-48.96%	
10) PNC FINANCIAL SERVICES GR	45.98	0.72%	-4.18%	724.00M	16.70B	-43.57%	
11) NORTHERN TRUST CORP	58.73	-0.10%	14.42%	670.00M	22.65B	6.65%	
12) COMERICA INC	30.65	1.52%	55.50%	75.00M	5.27B	-70.92%	
13) MORGAN STANLEY	31.38	1.06%	98.92%	-898.00M	35.01B	-34.14%	
14) CAPITAL ONE FINANCIAL CORP	37.50	-1.45%	21.04%	-935.08M	4.77B	-97.89%	
15) SUNTRUST BANKS INC	23.71	-0.25%	-18.47%	-1.03B	3.26B	-53.38%	
16) FIFTH THIRD BANCORP	10.24	0.89%	24.68%	-1.27B	3.41B	N.A.	
17) KEYCORP	6.63	1.22%	-21.21%	-1.27B	4.21B	N.A.	
18) STATE STREET CORP	54.39	1.12%	38.37%	-2.14B	35.67B	23.71%	

# Regulatory Reform

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- Four Key Proposals Underway
  - Consumer Financial Protection Agency Act
    - H 3216 will create a new agency charged with regulating consumer financial products and services. Introduced just prior to August recess, direction unclear at this point.
  - Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act
    - Signed into law SAFE is intended to enhance consumer protection and reduce fraud by requiring that all mortgage loan originators be licensed and registered – required by July 31, 2010 for exclusive mortgage brokers or December 31, 2009 for limited loan officers.
  - Credit Card Accountability, Responsibility, and Disclosure (CARD) Act
    - Signed into law on May 22, 2009. Attempts to strengthen consumer protections in the credit card industry by restricting rate increases, placing limits on fees and penalties, and requiring contract terms be in plain language. Most elements go into effect Feb 2010.
  - Legislation regarding institutions deemed too big to fail
    - Still being developed

# What If...

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- ...we got ahead of the next crisis?
  - If banks are dynamic and cyclical, then perhaps capital should be dynamic and countercyclical.
  - Increase capital requirements when firms can better afford to reserve
  - Contingent Capital?
  - Convertible debt – turns into equity automatically if the system is in crisis based on objective indicators or based on firm ratios.

# Summary

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- **Regulatory environment still present, but administration focused on health care and financial industry recovering**
- **Recovery underway, but consumer jobs and sentiment will lag recovery**
- **Banks have money to lend, but are very cautious about new loans given deteriorating consumer portfolios**
- **Consolidation of industry should continue, creating bigger firms and raising concerns over systemic risk**