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North America  
Financial Services  
Large-Cap Banks

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## Large-Cap Banks

Industry Overview

Possible RTC + Short Ban = Big Move

### Sector View:

New: 1-Positive

Old: 1-Positive

### Investment Conclusion

□ Bank stocks rose 13.8% yesterday (vs. S&P 500 up 4.3%). This marked the 2<sup>nd</sup> best day (both absolute & relative) in the 15-plus year history of the BKX (after 7/16/08; WFC dividend hike). We also saw an intra-day move from the day's low to the close of 25.0% (vs. S&P 500 up 6.4%). There appeared to be two catalysts for the move, in our view. First, it was widely reported that government bodies are looking to set-up a Resolution Trust Corporation (RTC) like facility. Still, one difference we believe is likely in the current environment is that while the RTC of the late 1980s/early 1990s held and then sold assets of failed banks, we believe it's possible this go around, an entity will purchase assets from solvent institutions at a discount and unwind them over time. Still, this isn't necessarily a fix for asset valuations. We note, in our coverage, TCB, FHN, BBT, SNV, WB and STI have over half of their loan portfolios tied to residential real estate. And second, it appears short selling has become much more onerous and possibly temporarily banned. The U.K.'s FSA banned short-selling of financial companies for the rest of the year and it appears the SEC may issue a temporary ban on short-selling. In terms of percent of shares short, ZION, FHN, NCC, SNV, TCB and CMA screen as the highest per the most recently disclosed data.

**Overview:** Bank stocks rose 13.8% yesterday (vs. S&P 500 up 4.3%). This marked the 2<sup>nd</sup> best day (both absolute & relative) in the 15-plus year history of the BKX (after 7/16/08; WFC dividend hike). We also saw an intra-day move from the day's low to the close of 25.0% (vs. S&P 500 up 6.4%). There appeared to be two catalysts for the move, in our view. First, it was widely reported that government bodies are looking to set-up a Resolution Trust Corporation (RTC) like facility. Still, one difference we believe is likely in the current environment is that while the RTC of the late 1980s/early 1990s held and then sold assets of failed banks, we believe it's possible this go around, an entity will purchase assets from solvent institutions at a discount and unwind them over time. Still, this isn't necessarily a fix for asset valuations. **We note, in our coverage, TCB, FHN, BBT, SNV, WB and STI have over half of their loan portfolios tied to residential real estate.** And second, it appears short selling has become much more onerous and possibly temporarily banned. The U.K.'s FSA banned short-selling of financial companies for the rest of the year and it appears the SEC may issue a temporary ban on short-selling. **In terms of percent of shares short, ZION, FHN, NCC, SNV, TCB and CMA screen as the highest per the most recently disclosed data.**

**RTC:** CNBC reported Thursday (CNBC.com: "Paulson Plan To Take Over Bad Debts May Be in Works") that Treasury Secretary Henry Paulson is considering setting up a government facility to take on bad debts from financial institutions. The facility is expected be similar to the Resolution Trust Corporation. It stated a plan could be announced as early as Friday. Still, it is unclear what approvals are necessary and how quickly it can be set-up. While we don't know the exact details and aren't sure if it will even mimic what we saw in the late 1980s/early 1990s, we thought it would be helpful to review the past RTC.

Recall, the RTC was a U.S. Government-owned asset management company mandated to liquidate assets (primarily real estate-related) that had been assets of S&Ls declared insolvent by the OTC. Between 1989 and mid-1995, the RTC closed or otherwise resolved 747 thrifts with total assets of \$394 billion. The RTC mainly used "equity partnerships" to help liquidate real estate and financial assets which it inherited from insolvent thrift institutions. While a number of different structures were

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used, most of the equity partnerships involved a private sector partner acquiring a partial interest in a pool of assets, controlling the management and sale of the assets in the pool, and making distributions to the RTC reflective of the RTC's retained interest. The RTC used equity partnerships to achieve a better execution through maintaining upside participation in the portfolios. Prior to introducing the equity partnership program, the RTC had engaged in "bulk sales" of asset portfolios. The pricing on certain types of assets often proved to be disappointing because the purchasers discounted heavily for "unknowns" regarding the assets, and to reflect uncertainty at the time regarding the real estate market. By retaining an interest in asset portfolios, the RTC was able to participate in the very strong returns being realized by portfolio investors. Additionally, the equity partnerships enabled the RTC to benefit from the management and liquidation efforts of their private sector partners, and the structure helped assure an alignment of incentives superior to that which typically exists in a principal/contractor relationship. The ultimate cost of the S&L crisis is estimated to have totaled around \$160.1 billion, about \$124.6 billion of which was directly paid for by the U.S. government (i.e. the U.S. taxpayers).

Still, one difference we believe is possible in the current environment is that while the RTC held and then sold assets of failed banks, we believe its possible this go around, an entity will purchase assets from solvent institutional at a discount and unwind them over time. Still, this isn't necessarily a fix for asset valuations. **We note, in our coverage, TCB, FHN, BBT, SNV, WB and STI have over half of their loan portfolios tied to residential real estate. Figure 1.**

**Short selling:** Yesterday, the U.K.'s Financial Services Authority banned short-selling of financial companies for the rest of the year and will require daily disclosure of all existing short positions in such firms when they exceed 0.25%. Additionally, several U.S. pension funds stated they would stop lending certain banks for short sale and the NY AG initiated a wide-ranging investigation. Then, after the close, WSJ.com ("SEC Plans to Temporarily Ban Short-Selling") stated the SEC is set to issue a temporary ban on short-selling. Recall, earlier this summer, the SEC moved to restrict certain short-selling practices for 29 days, covering 19 financial stocks. **In terms of percent of shares short, ZION, FHN, NCC, SNV, TCB and CMA screen as the highest per the mostly disclosed data. Figure 2.**

**FIGURES ON NEXT PAGE**

**Figure 1. Loan Mix (ranked by residential real estate)**

as % of Total Loans												
Ticker					Resi. Real Estate Related Loans							
	Constr & Land Dev	Mortgage	HEL	Multi- Family		Credit Card	Other Consumer	Lease	Related Loans	Non- Resi. R/E	Other	
TCB	3.4%	44.6%	12.5%	4.3%	64.7%	9.3%	12.9%	0.1%	0.5%	12.2%	34.9%	0.4%
FHN	16.5%	28.4%	18.1%	1.3%	64.3%	19.7%	9.7%	0.6%	0.8%	0.0%	30.9%	4.8%
BBT	20.9%	27.9%	5.3%	1.0%	55.0%	13.9%	14.8%	1.8%	9.5%	1.4%	41.4%	3.6%
SNV	33.5%	11.5%	6.0%	1.8%	52.8%	16.2%	24.7%	1.3%	1.1%	0.7%	44.0%	3.3%
WB	4.8%	40.7%	6.0%	1.1%	52.5%	17.9%	9.7%	0.9%	7.7%	2.7%	38.9%	8.7%
STI	10.8%	26.8%	12.0%	0.7%	50.2%	21.1%	9.7%	1.2%	8.6%	4.6%	45.2%	4.5%
NCC	9.6%	22.4%	15.3%	1.8%	49.1%	25.9%	11.3%	1.8%	3.4%	3.7%	46.2%	4.8%
MI	19.8%	18.3%	4.9%	4.5%	47.5%	27.6%	15.7%	0.8%	1.7%	1.4%	47.3%	5.3%
RF	15.3%	17.2%	12.8%	1.7%	47.1%	17.5%	17.2%	0.2%	5.7%	2.2%	42.8%	10.1%
WFC	4.6%	25.0%	16.0%	0.8%	46.4%	20.9%	8.6%	5.9%	11.9%	1.8%	49.1%	4.5%
BAC	3.8%	29.1%	11.1%	1.2%	45.2%	20.3%	6.3%	12.3%	6.8%	2.2%	47.8%	6.9%
PNC	6.5%	23.1%	9.7%	1.3%	40.6%	30.4%	13.3%	0.6%	7.2%	3.2%	54.6%	4.9%
FITB	12.4%	14.0%	12.0%	1.1%	39.6%	28.4%	12.9%	2.3%	9.8%	5.2%	58.5%	1.9%
ZION	21.6%	10.2%	4.6%	1.5%	37.9%	25.2%	31.5%	0.8%	1.0%	1.0%	59.6%	2.5%
NTRS	2.1%	28.0%	6.5%	1.1%	37.7%	25.9%	6.8%	0.1%	7.6%	3.9%	44.2%	18.1%
MTB	9.5%	13.1%	9.1%	4.3%	36.0%	22.8%	23.8%	0.3%	11.2%	2.8%	60.9%	3.1%
USB	5.5%	18.2%	7.9%	1.1%	32.7%	23.7%	10.3%	8.7%	11.1%	6.9%	60.8%	6.5%
C	0.4%	24.4%	3.7%	1.0%	29.5%	22.2%	1.1%	11.5%	15.9%	1.0%	51.7%	19.2%
JPM	1.2%	15.6%	12.3%	0.1%	29.2%	26.6%	2.5%	12.0%	9.6%	0.6%	51.3%	19.5%
KEY	10.6%	7.0%	9.8%	1.4%	28.8%	27.9%	13.4%	0.8%	10.7%	12.4%	65.1%	6.1%
CMA	10.8%	4.8%	2.9%	0.5%	19.0%	49.3%	23.3%	0.7%	0.8%	2.6%	76.7%	4.2%
BK	1.0%	8.9%	0.7%	0.7%	11.2%	10.7%	1.8%	0.2%	1.6%	9.0%	23.2%	65.6%
STT	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	0.9%	13.3%	14.4%	85.6%

Source: SNL, company reports, Lehman Brothers

**Figure 2. Short Interest**

Short Interest		Shares Short as a % of Shares Outstanding		Trading Days Short		% Change from Prior Month	
Ticker	(millions)	Ticker	Outstanding	Ticker	Short	Ticker	Month
WB	278.4	ZION	33.7%	SNV	8.3	MTB	45.6%
WFC	173.2	FHN	24.7%	BBT	6.8	USB	28.3%
NCC	162.4	NCC	21.3%	NCC	6.1	MI	27.8%
C	151.5	SNV	19.9%	TCB	6.0	STT	23.2%
BAC	125.0	TCB	19.6%	MTB	5.9	BAC	23.2%
RF	99.9	CMA	17.3%	ZION	5.7	ZION	20.6%
BBT	81.8	BBT	14.9%	FHN	5.6	STI	19.0%
USB	73.9	MTB	14.5%	MI	4.3	RF	18.7%
SNV	65.8	RF	14.4%	CMA	4.1	WB	18.4%
JPM	48.8	WB	12.9%	RF	3.7	FHN	16.5%
FHN	48.4	MI	12.5%	STI	3.4	FITB	13.8%
FITB	43.6	STI	9.3%	USB	2.9	WFC	13.8%
ZION	36.3	FITB	7.5%	FITB	2.5	CMA	9.0%
STI	32.9	WFC	5.2%	WFC	2.4	BBT	8.7%
MI	32.3	KEY	5.0%	WB	2.4	NTRS	8.6%
CMA	26.1	USB	4.2%	KEY	1.6	BK	7.0%
TCB	25.7	C	2.8%	BK	1.4	KEY	3.8%
KEY	24.6	BAC	2.7%	NTRS	1.4	PNC	2.7%
BK	19.3	PNC	2.5%	PNC	1.3	NCC	2.0%
MTB	16.0	NTRS	2.0%	STT	1.3	C	-0.3%
PNC	8.5	STT	1.7%	C	1.3	TCB	-3.4%
STT	7.4	BK	1.7%	BAC	1.2	SNV	-4.1%
NTRS	4.5	JPM	1.4%	JPM	1.0	JPM	-12.1%

Source: Bloomberg, Lehman Brothers

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Comerica Inc.	CMA	US\$ 31.35	17 Sep 2008	3-Underweight / 2-Neutral
Fifth Third Bancorp	FITB	US\$ 14.30	17 Sep 2008	2-Equal weight / 1-Positive
First Horizon National	FHN	US\$ 10.95	17 Sep 2008	2-Equal weight / 2-Neutral
JPMorgan Chase & Co.	JPM	US\$ 35.77	17 Sep 2008	1-Overweight / 1-Positive
KeyCorp	KEY	US\$ 12.02	17 Sep 2008	3-Underweight / 1-Positive
M&T Bank	MTB	US\$ 77.55	17 Sep 2008	2-Equal weight / 2-Neutral
Marshall & Ilsley	MI	US\$ 17.80	17 Sep 2008	2-Equal weight / 2-Neutral
National City	NCC	US\$ 3.55	17 Sep 2008	1-Overweight / 1-Positive
Northern Trust	NTRS	US\$ 70.72	17 Sep 2008	2-Equal weight / 1-Positive
PNC Financial Services Gp	PNC	US\$ 71.96	17 Sep 2008	2-Equal weight / 1-Positive
Regions Financial	RF	US\$ 10.87	17 Sep 2008	3-Underweight / 1-Positive
State Street	STT	US\$ 64.75	17 Sep 2008	1-Overweight / 1-Positive
SunTrust Banks	STI	US\$ 47.63	17 Sep 2008	3-Underweight / 1-Positive
Synovus Financial	SNV	US\$ 10.25	17 Sep 2008	3-Underweight / 2-Neutral
TCF Financial	TCB	US\$ 18.55	17 Sep 2008	1-Overweight / 2-Neutral
The Bank of New York Mellon Corp.	BK	US\$ 33.10	17 Sep 2008	1-Overweight / 1-Positive
U.S. Bancorp	USB	US\$ 33.34	17 Sep 2008	1-Overweight / 1-Positive
Wachovia Corp.	WB	US\$ 9.12	17 Sep 2008	1-Overweight / 1-Positive
Wells Fargo	WFC	US\$ 33.43	17 Sep 2008	1-Overweight / 1-Positive
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