SUBSCRIPTIONS: 800-221-1809

MONDAY

JUNE 8, 2009

FRIDAY'S MARKETS

KBW Bank Index	▼	2.1%
ABA/Nasdaq Index	▼	2.1%
Dow Jones Industrial Average	▲	0.2%
Standard & Poor's 500	▼	0.3%

10-year Treasury yield 3.835%, up 0.124

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B of A Nears Deal to Pay For Backing

BY CHEYENNE HOPKINS and PAUL DAVIS

WASHINGTON — The Treasury Department and Bank of America Corp. are expected to strike a deal today over how much the Charlotte company owes the government in fees from an unsigned asset guarantee plan struck in January.

The deal is expected to coincide with a deadline for the company, along with nine others that took government stress tests, to detail plans to raise additional capital over the next five months.

Brian Moynihan, B of A's president of global banking, has met with Treasury officials over the past few weeks over the fees, arguing that the company should not have to pay the full load of fees for an asset guarantee it never used, according to a source who requested anonymity.

The guarantee was meant to cover the risk associated with a large group of assets, most of which B of A obtained in its government-orchestrated purchase of Merrill Lynch & Co.

The Treasury has argued that since B of A materially benefited from the announcement of the guarantee plan, the company

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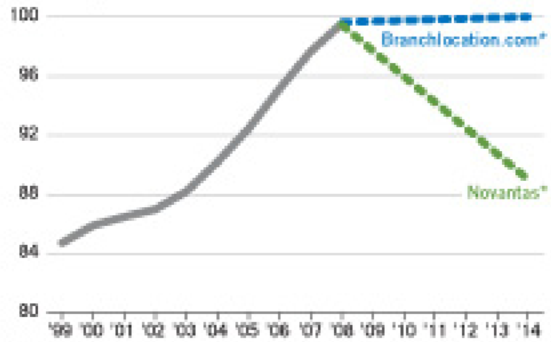
Branching Out?

The number of bank and thrift branches grew nearly 20% over the past decade, but experts disagree about whether more growth, or contraction, lies ahead. Numbers in thousands



*Estimates

Sources: FDIC, Branchlocation.com, Novantas

More or Less: Branches' Role After the Meltdown

BY KATIE KUEHNER-HEBERT

The future-of-branching debate — "brick-and-mortar is dead!" "no, expansion is near!" — is back on, but the two sides have more in common than they might think.

In one corner are the industry experts who forecast a post-meltdown reduction in the number of branches, saying executives have to close branches to raise billions of dollars in capital and return to profitability.

In the other corner are those who argue that if the near future will bring an emphasis on bread-and-butter banking, bankers will have to add branches to whip up deposits.

The predictions vary widely — from roughly 10,000 closings to more than 1,000 additions over the next five years — but everyone agrees on one thing: no matter what happens, the size, nature and location of the branches will change greatly.

"If there is one thing we have learned from this whole crisis, it's the importance of traditional banking, and nothing is more traditional than access to cheap core deposits," said Ken Thomas, the president of Branchlocation.com in Miami.

The two sides are surprisingly united on how to get those deposits.

Though stand-alone branches on street corners might still be superior in high-traffic locations, cost-conscious banks will increasingly shift to smaller branches in strip malls and in grocery and retail stores. Technology upgrades,

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Searching For Clues in Sotomayor's Opinions

Lots of financial experience, mixed bag on class actions

BY EMILY FLITTER

WASHINGTON — During her tenure on the U.S. Court of Appeals for the Second Circuit, Judge Sonia Sotomayor has occasionally angered the banking industry, most famously by giving a green light to a class action against the credit card networks that eventually led to one of the largest corporate payouts ever.

But a closer look at her decisions shows significant experience tackling business issues and no easy answers as to whether she will lean toward or against bank interests if confirmed to the Supreme Court.

"I have not yet seen cases that she's decided that really seem to me to give a clear picture of where she's headed," said David Skeel, a corporate law professor at the University of Pennsylvania Law School. "The business decisions seem to me to look like what appeals court decisions look like: relatively straightforward exercises."

Where Sotomayor stands on the biggest banking issue before the high court — preemption — is unclear, though at least one decision may indicate support for states' rights.

In 2005 she overturned a lower court's decision that a group of stockholders could not sue Merrill Lynch & Co. in state court for misrepresenting information about

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Debating Value, Number Of Branches Post-Crisis

Continued from page 1

such as automatic cash vaults and videoconferencing phones, will also reshape the landscape.

As of June 30 there were just over 99,000 U.S. bank and thrift branches, according to the Federal Deposit Insurance Corp.

Thomas said the number of branches in the country could top 100,000 in the next five years. Underperforming branches will be weeded out, Thomas said, but total numbers will increase to attract more deposits, particularly in high-growth markets fed by immigration, such as Southern California, Arizona and Florida.

Tom Brogan, a research director at TowerGroup Inc., an independent research firm owned by MasterCard Inc., is projecting a net gain of about 1,200 branches in the U.S. by 2013.

Banks will likely keep building smaller branches to save costs, Brogan said. A typical branch is currently about 3,500 square feet, and he expects that average to shrink to about 3,000 square feet. Strip mall branches and in-store branches typically cost $700,000 to $1 million to build, and stand-alone branches about $2.7 million each, he said.

"The main driver of branch usage is still convenience, so if I can spend the same amount of money on six or seven smaller locations as I do five, I can provide better, more convenient service to my customer base," Brogan said.

Fewer tellers will work at these sites, and banks will likely use more technology such as video phones to arrange conversations between customers and experts in mortgage lending or wealth management, Brogan said.

In interviews, a handful of bank officials backed up some of these arguments.

Richard Hartnack, the head of consumer banking at U.S. Bancorp, said the Minneapolis company will likely have a larger branch network in five years.

Hartnack: U.S. Bancorp expects to have a larger network in five years.

"We don't have branches in all the places we need to best serve our clients," Hartnack said, particularly on the western end of its territory.

Currently U.S. Bank has 2,867 branches, but Hartnack would not estimate how many it would have in 2014, because acquisitions would factor into that projection.

JPMorgan Chase & Co. will also have a net gain by then, said spokesman Tom Kelly.

Though it has closed 300 overlapping branches in New York, Chicago and Texas since buying the banking operation of Washington Mutual Inc. in September, and it expects to close 100 more by yearend, it plans to open 100 to 150 branches a year indefinitely.

It has roughly 5,200 branches now.

"The branch is the single most important place for people to open accounts," Kelly said.

TD Bank, the U.S. unit of Toronto-Dominion Bank, plans a net gain of about 30 branches for the next two years and then at least 50 each year after that, said Fred Graziano, executive vice president of retail banking.

That strategy can help the bank meet its goal of being ranked one of the top three in branch count and deposit share in each of its markets.

Not everyone believes branch networks will continue to expand. Dave Kaytes, a managing director in the New York consulting firm Novantas LLC, said there could be as many as 10,000 fewer branches in the country in the next five years as the industry makes slashing costs its top priority.

Kaytes estimated that the industry needs about $800 billion to $900 billion in additional capital over the next several years to repay funds from the Troubled Asset Relief Program and to placate regulators. However, banks as a group will likely make about $100 billion to $150 billion in net income a year, so the industry will have to find more ways to lower expenses.

"Banks have done a very good job of squeezing costs out of their headquarters — outsourcing operations, consolidating back offices, cutting various lines of business, reducing purchasing costs," Kaytes said. "The only place left is reducing the very-high-cost branch network," which typically amounts to 60% of a bank's expenses.

Though smaller branches can cost less to build and maintain, Kaytes contends that there are considerable fixed costs at every branch and that a greater number of smaller branches will not necessarily cost less than a network of fewer, but larger, branches.

Bob Hedges, managing partner at Mercatus LLC, a Boston consulting firm, agreed with Kaytes that there could easily be 10% fewer branches in five years. Consolidation within the industry will play a large part, as acquirers close overlapping branches and smaller banks go under.

But Richard A. Soukup, a partner with the Chicago office of the consulting firm Plante & Moran PLLC, said he expects branches to maintain their customer service lead in the foreseeable future. He conceded there could be a net reduction in branches in the near term in markets like Chicago as a result of consolidation. And there may come a time that alternative channels will gain in prominence as younger generations mature — but that will not happen soon, he said.

"For years, everybody's been predicting the death of brick-and-mortar, but it just hasn't happened," Soukup said. ■

EXECUTIVE CHANGES

MIDWEST

Wells Fargo Insurance Services of Chicago has hired **Ted Cadmus** as managing director for its Chesapeake region, consisting of the District of Columbia and Alexandria and McLean, Va.

Cadmus was a senior associate in the health and benefits division of the consulting firm **Mercer's LLC**.

MIDDLE ATLANTIC

Citigroup Inc. of New York has named **Peter Charrington** chief executive officer of its private banking business in North America.

Charrington, who is based in London, will oversee private banking in the United States and Canada. He will remain the head of the private banking business in the United Kingdom, Israel and Monaco.

Credit Suisse U.S.A. of New York has hired **James Walker** as a managing director, head of its investment banking operations in the Americas and head of global over-the-counter operations.

Walker was the chief financial officer for the Americas at **Barclays PLC**. Before that he was the CFO of global markets and investment banking for **Merrill Lynch & Co. Inc.**, where he had worked for 13 years. Earlier he spent eight years with **Morgan Stanley** in its London and Tokyo offices.

Walker is based in New York and reports to **Gary Bullock**, Credit Suisse's head of global investment banking operations.

WEST

The **Federal Home Loan Bank of San Francisco** has promoted **David Martens** to director of internal audit and hired **Robert Shovlowsky** as senior vice president of credit and collateral risk management.

Martens will remain the head of enterprise risk management for the bank, a post he has held since 2004. Before that he had been promoted to senior vice president of credit and collateral risk management. He joined the bank in 1996. Earlier he was the chief accountant for the **Office of Thrift Supervision**.

Shovlowsky was a senior bank examiner at the **Federal Housing Finance Agency**, where he oversaw examination teams and produced annual examination reports on some of the 12 Home Loan banks. Before that he was the assistant regional director for San Francisco at the **Federal Deposit Insurance Corp.** In that role he oversaw bank regulation and administration. He was with the FDIC for 19 years.

— Tone Tynover

■ COMPANY INDEX

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.