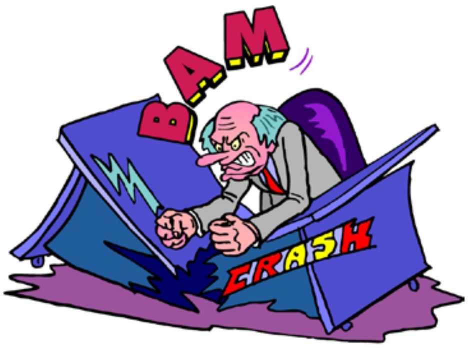
What would A. P. Giannini Do?
A primer on the right way to end the meltdown



In the spring of 1904, Amadeo Peter Giannini quit the board of Columbus Savings and Loan to start his own bank,. He wanted to reach out to the immigrant community, inviting those of modest means to enjoy the credit availability, borrowing terms and interest earnings on deposits that only the elite had up to that point. Just two years later, he loaded up a wagon with gold and cash that was hidden beneath crates of oranges and kept it overnight at his home in San Mateo On April 18th, 1906, the day after San Francisco's disaster, the tiny Bank of Italy transacted business when their larger, richer competitors took several "bank holidays". Bank of America's branches extended favorable terms to ranchers and farmers, even LOWERING interest rates to borrowers who were making payments on time. His office was in the middle of bank floor, and managers were expected to know their customers. What would A. P. Giannini do today -- not just for Bank of America, but for all of today's banking giants?

1) Suspend ALL foreclosures for Six Months

Mr. Giannini would recognize that with a sea change in the circumstances of his customers, every single loan in the bank's portfolio needs to be analyzed as to its past performance and probable future performance. Those experienced bankers that were laid off in the last two years just in time to avoid paying their pensions, would be hired back as independent consultants. Their accumulated wisdom is worth more than the youngsters with degrees and book learning and overblown sense of self worth ever contributed. This is a massive undertaking, and should have been done a year ago when the trembling of the land beneath the collateral shook like the 1906 quake. The bank would use this time to assess which foreclosures will actually reduce the risk of further losses, and which foreclosures are just mean spirited. He would tell management to suck it up, and admit that everyone suffered from the market's irrational exuberance - don't waste time on recriminations, roll up your sleeves, and get to work. Reassign the underwhelmed origination staff and underwriters (they are just busy saying no anyway) to the completely overwhelmed Real Estate Owned department (REO departments typically handle the small portion of every loan portfolio that goes into default). Today's banking giants have a staff of three to do the work of 50 in the line of fire and a staff of 50 managing those three workers – and they've been begging for more staff for the last 16 months. Assign the titularly enhanced Vice Presidents of Lost Business to the Workout Department, which must

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replace the Collections Department aka Customer Harassment Specialists. Pick up the phone and call every borrower and ask how you can help them. Update the customer's contact information, bring them into a branch, look at their retirement accounts, their checking and savings, and all the credit cards, and work out a decent payment plan that keeps them in their homes.

2) Find out where all the loans were sold, and reach out to the investors that bought them.

Bank workers will begin by performing the due diligence that was skipped in the naïve belief that Moody's and Standard and Poor's quality ratings were accurate. The Ratings Agencies gleefully collected fees for coaching sellers of mortgages on how to get an "A" – a HUGE conflict of interest, which frankly, Secondary Marketing should have been aware of. Now the investors, blind and burdened, are getting in the way of progress. Reach out to them, get their agreement to the plan that will save them money in the long run. Most of their investment has already been written down, so work with them to stem further losses in the servicing portfolio. Bear in mind that these files won't all be where you look for them, the first of many clues that the up-staffing was justified. Then, split these into two piles – owner occupied and non-owner occupied/investment properties.

3) For the non-owner occupied loans, go full steam ahead on the foreclosure process.

Go get them cleaned up, back on the market and removed from the portfolio with all due haste. These are not people's HOMES, and since many realtors are lacking listings, they will be very energetic in the marketing of your REO's, and better at selling them than any banking staff could be.

4) Split the owner occupied loans into four categories.

Category 1: Good customers who pay on time (FICO scores above 680 who pay on time, all the time) – don't foreclose on these people. Lower their payments, modify their loans, lower their rates – thank them for toughing it out, and meeting their obligations. Find out if they need any help, if they have lost a job, consider hiring part-time clerks from their ranks.

Category 2: Good customers who used to pay on time (680 FICO's or higher, currently in default) These people either have fallen on hard times, and you should be counseling them and helping them, or they are in excellent economic condition, but went into default because they couldn't get your attention any other way. This group should be instantly rewarded with lower interest rates, and in some cases – yes, a reduction in the principal owed. Let's soothe that old man's afterlife and REWARD

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good customers. As you can see, it is not a new idea, but one of the founding principles of success for a company that has lost its way.

Category 3: High CLTV (Combined Loan To Value is the sum of all the mortgages compared to the Value of the property) Subprime Borrowers who happen to not be renters right now (FICO's anywhere below 640 who are habitually late, in default, in foreclosure, etc.) and are already behind in their payments. If you agreed to Combined Loan To Value (CLTV) ratios above 90%, let the second trust deed lender take the fall. The concurrent seconds were charging 13% anyway. Workout specialists should not be wasting their time with repeating default customers who have no equity in their homes. In terms of profitability, this class of customers were charged 2-4 points (a point is one percent of the the loan amount) up front – typical for subprime loans, and what with origination fees and servicing release premiums, the bank pocketed thousands of dollars for very single loan in that group, there is no more money to be made here.

Category 4: Low CLTV Subprime Borrowers: For the Low CLTV loans, let them sit, stall foreclosure on these if you can, because the collateral may recover in a couple of years.

5) HIRE PEOPLE!

Staff up to take the calls of borrowers who have submitted buyer's offers for their homes. The longer you make them wait, the more money you will lose. The nation's banks have already ignored the pleas of these people by understaffing all of their various departments tasked to deal with defaults of all kinds, losing valuable purchase offers that will not come around again.

Now is no time to be shortsighted, all banks should be humble and energetic towards earning their share of the bailout money. Be fair, talk to these borrowers, and stop short staffing vital operational departments, especially when so many of the bank's employees have the expertise needed to turn this disaster around. Every branch has empty desks facing worried customers – use the space, help them fill out all those confusing forms, don't make your customers send faxes to empty rooms. With this plan in place, A. P. Giannini can rest easier, and so can the bank and its customers.

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