

## **Pinnacle's Perspective on the Financial Crisis**

*By Terry Turner, president and CEO, Pinnacle Financial Partners*



The past few weeks have been some of the most turbulent times the financial sector has ever faced, with monumental changes taking place on Wall Street and Main Street almost hourly. Confusion and worry abound over what the recent failures, mergers and takeovers really mean. The bailout package President Bush recently signed into law probably was necessary to stabilize the financial markets, but will come at a cost.

### **How we got here**

To fully understand how we got here and what it means, you need a 40,000 ft. view of what has happened to date.

Basically, the investment banks on Wall Street took mortgages, packaged them together in mortgage-backed securities, split them up a hundred ways, sold and traded them and made a lot of money doing it. The investment banks selling these mortgages lowered their lending standards when the supply of traditionally qualified borrowers diminished.

When the bottom fell out, the assets of the financial firms that acquired these high-risk mortgages declined significantly, which depleted their capital. Consumer confidence tanked, taking stock prices with it. That dealt a significant blow to the entire financial sector.

There is no doubt the government had to take urgent action to fortify the confidence not only of American consumers and businesses, but also the international markets. To that end, the package signed into law likely should work to stabilize markets, but at what costs?

What the taxpayers are getting with this law:

- It should eliminate the further collapse of troubled asset values currently carried on many commercial and investment banks' balance sheets and, therefore, stem the loss of precious capital at many struggling financial firms.
- Taxpayers, despite potentially being on the hook for another \$700 billion, may very well make a meaningful profit on the government's purchase of assets at distressed prices and their newly acquired ownership interests in many financial firms that will no doubt survive and flourish. More definition by the Treasury Department is still required to know exactly which assets will be purchased and at what price.
- Greater FDIC insurance coverage should provide greater confidence in commercial banks, avoiding any potential "run on the banks" that would lead to frozen credit markets, contracting businesses, massive job cuts, etc.

Most likely taxpayers are actually getting a pretty good deal – but at what cost?

- This bill continues to eliminate moral hazards in exchange for an expectation that the government should indemnify us if we borrow more than we can repay or if we lose a lot on investments by taking risks we didn't understand.
- It accelerates our move away from free market capitalism. It's hard to imagine the government owning the financial firms it is supposed to regulate. Hugo Chavez refers to that as nationalization. When I was in school, we called it socialism.

### **Impact on Pinnacle**

Like all other financial services firms, Pinnacle will face challenging times until the national situation turns around. However, we are better positioned than most other banks to get through

it. Pinnacle continues to experience strong performance and earnings, which is a tribute to the strategy we have stuck to since our inception eight years ago.

Pinnacle has no direct exposure to bad loans in the sub prime arena because we have a conservative approach to underwriting and have disciplined credit practices. The bailout likely will have virtually no direct effect on Pinnacle, because we have very few, if any, of the problem asset classes the government will purchase.

Most of the financial firms that stand to benefit from a bailout are those that played a big role in the origination of mortgage products. These large national investment banking firms and, to a lesser extent, large national and regional banks, took the biggest risks and are struggling from the fallout of those decisions.

We differ from those firms in several ways. Our credit quality has been excellent in comparison to other banks that are struggling during this downturn. In fact, Jeff Davis, a bank analyst with FTN Midwest Securities, called our credit metrics "outstanding" in a *Tennessean* article that highlighted our performance.

We're the only Tennessee bank recognized among Sandler O'Neill's Sm-All Stars. Sandler O'Neill combs the field of 574 publicly traded banks and chooses the nation's 33 best performing small-cap firms based on growth, profitability, asset quality and capital strength.

Pinnacle is also outperforming many other banks in our market based on safety and soundness measures. Bankrate.com rates banks on capitalization, asset quality, earnings and liquidity (CAEL). Pinnacle has the best rating among all of Nashville's banks.

We've always said that our performance is a tribute to the skill and long-term experience of our associates. Our approach of hiring only highly experienced bankers pays off in more difficult economic environments because it enables us to continue growing at a rapid rate while maintaining excellent credit quality.

### **Impact on You**

The safest place for your money is still in an FDIC-insured institution like Pinnacle. Your deposits are insured dollar-for-dollar up to the insurance limit. Effective immediately, a provision of the bailout package temporarily raises the basic insurance limit from \$100,000 to \$250,000 per person for the combined total of your savings, checking and other deposit accounts.

Pinnacle offers an additional opportunity to increase your FDIC insurance coverage using a program called CDARS. Your relationship stays with Pinnacle, but we place certificates of deposit in amounts below the insurance cap across multiple institutions to maximize the coverage. We establish your account, work with you on rates, provide you with one monthly statement and let you know when your CD matures. You can learn more about FDIC coverage and CDARS at [www.pnfp.com/fdic](http://www.pnfp.com/fdic).

While credit has tightened, people with a good credit history will continue to have access to mortgage, credit card and other types of loans. With lending standards tightening, it's more important than ever to monitor your credit report and keep your scores in the "good" to "excellent" range.

If you have any questions about how your accounts are set up or how the recent changes in the financial sector affect you, please contact your financial advisor.

You can reach Terry at 615-744-3709 or by e-mail at [terry.turner@pnfp.com](mailto:terry.turner@pnfp.com).