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Dear Client:

Wal-Mart could get a governmental green light to open a bank as early as this summer. Is this good or bad? It's not good if you listen to small independent bankers in Austin and around the state. And they're hopping mad about it.

The retail giant has been making noises for some time now about wanting to open a bank. Wal-Mart has petitioned the FDIC for federal deposit insurance and an industrial bank charter in order "to facilitate payment options for their customers."

"Does anyone in their right mind believe that?" asks Christopher Williston, president/CEO of the Independent Bankers Association of Texas (IBAT). "Look, I am a free enterprise guy. I am sympathetic to the cries of many that government should get out of the way of commerce and let the market sort it all out. But this is different and Congress has believed it was different since the early 1930s when the FDIC fund was created."

That was when, says Williston, Congress set out to remove one of the systemic problems of the Great Depression by **separating the activities of commercial banks and commercial firms**. "Think for just a minute about the availability of credit to small business in rural areas," Williston said.

"Imagine if you will a Wal-Mart bank having purchased or priced out of business the only other bank in a small rural town. Assuming there are independent businesses still operating in the town and in need of financial services their **only local alternative could well be their primary competitor – Wal-Mart.**"

He went on to say "all of us should have **serious reservations regarding the stated future intentions of Wal-Mart** and recognize that the temptation to offer a full range of banking products in the future might be something the boys from Bentonville may not be able to resist."

Williston said **"IBAT and the entire community banking industry will stand firm in our opposition to the Wal-Mart request."**

It's not just a philosophical fight for the community bankers. "After all," Williston noted, "our competitive backsides are already up against the wall."

It's not just the smaller community bankers whose backsides are up against the wall, many banks are in for a bit of a rough ride, compared to the past few years of operations.

Listen to these words of caution from our friends at *KiplingerForecasts*: **“Increased interest rates are both squeezing profit margins and making it tougher for consumers to pay back debt.** About a quarter of outstanding mortgages, for example, have adjustable rates, with a third of them due to reset at higher rates this year. Plus, one in ten mortgages are sub-prime ... riskier than normal.” This is a reference to banking in general, not necessarily localized.

KiplingerForecasts also predicts **“the number of bad loans will continue to escalate well into 2008,** as past Federal Reserve rate hikes work their way through balance sheets.” In fact, it predicts mortgage delinquency rates could climb to at least 5%, maybe higher.

Even with this caution, though, there is no dire prediction. **Bank failures aren't likely, but many banks will disappear, gobbled up by bigger, stronger rivals.** In fact, *KiplingerForecasts* reports: “We expect the number of mergers and acquisitions to near 300 this year and approach 350 in 2007 ... significantly more than the 265 a year they have averaged since 2000.”

Of course, we've already seen this trend here in Austin and around the Lone Star State where **the bank buying binge rivaled the spending spree of a drunken sailor on a short shore leave.** The big boys in banking targeted Texas and other high growth states, such as Florida and California initially. Now they've set their sights on small, struggling banks in the Midwest.

We've mentioned another change previously, but it needs to be a part of this roundup. For banks and borrowers, closer scrutiny is coming down the pike. **Regulators are starting to tighten the spigot a bit, requiring lenders to pay more attention to borrowers' applications while themselves casting a more critical eye on banks' balance sheets.** Bear this in mind as you consider current and future banking relationships.

Looking back over what we've written so far, we don't want you to read this as a “the sky is falling” missive. It's simply a report to tell you of changes that are occurring so you can stay ahead of the curve. **We are far from being in the midst of a credit squeeze. Most banks have plenty of money to parcel out and are eager to make loans** to borrowers with good credit ratings and, oh yeah, collateral.

And, as far as interest rates are concerned, *KiplingerForecasts* is echoing what you've been reading elsewhere: a pause in rate hikes by the Federal Reserve is likely after this month. However *KiplingerForecasts* is also predicting that an **occasional step-up is still likely, but not the relentless upward march we've witnessed since June 2004.** The monetary policymakers will assess the situation on a month-to-month basis. So, stay tuned.

It's that time of year – college and university grads are gearing up for the job market. What are their prospects as they head out into cold, cruel world (without mom and dad's help)?

UTAustin's commencement is a week away (5/20/06). The speaker, by the way, will be the US Ambassador to Mexico, **Antonio O. Garza, Jr.** You may remember Tony Garza during his time here in Austin as a student (a 1980 grad of UT Austin who was recognized as one of five Outstanding Young Texas Exes in 1989) and as Chair of the Texas Railroad Commission.

After hearing Garza's words, the UTAustin grads – and those from other institutions of higher learning around Texas – will be facing pretty decent jobs prospects. A recent survey indicates that employers are expecting to hire 14.5% more than last year. **This marks the third consecutive year in which a greater percentage of new graduates can get jobs.**

How much money will these grads make? No fair thinking back to the salary you pulled down for your first full-time job. These are different times. In fact, the National Association of Colleges and Employers forecasts the **likely starting salary offer for a bachelor's degree is 3.7% higher than last year and 4.0% for a master's.**

Here are the **Top Ten professions and average starting salaries:** chemical engineering (\$55,900) ... computer engineering (\$54,877) ... electrical/electronics and communications engineering (\$52,899) and mechanical engineering (\$50,672). **Obviously, engineering colleges and schools were the place to be.**

Others include: computer science (\$50,046) ... accounting (\$45,723) ... economics and finance, including banking (\$45,191) ... civil engineering (\$44,999) ... business administration/management (\$39,850) and marketing/marketing management and research (\$36,260).

On the other end of the scale, high school dropouts (there were 1.3 million of them in Texas in 2004 – the latest year for which data is available) not only earn less, but they cost the Texas economy in productivity loss of about \$32 billion over their lifetimes, according to Texas economist **Ray Perryman.**

The national debate over immigration has focused on construction and restaurant-type businesses. But would you believe high-tech is impacted? For a different reason, of course.

High-tech firms have been lobbying Congress for an increase in the number of visas for highly-skilled workers from 65,000 per year to at least 115,000. There seems to be widespread support for this increase, but the provision is part of a bigger bill that's mired in controversy over illegal immigrants and very low-tech jobs in construction, landscaping, roadwork, etc.

Austin has recently been named #5 on the list of America's Most Educated Cities (msn.com, May2006) and is on the Ten Hot Cities for Job Growth (cnn.com, May 2006). But, forget those. Did you know Austin also made the Top Ten Vegetarian Friendly Large Cities list?

Austin is much more widely known for its Barbecue, Mexican Food, Chicken Fried Steaks and Burgers (how often have you heard, or uttered, after being away from Austin for awhile "I sure did miss some good Mexican food" or "We couldn't find any decent barbecue or our trip" or "I sure would like a Chicken Fried Steak or at least a good old-fashioned Cheese Burger?"). But vegetarian dishes? Yet, here we are — **#8 in the nation on the list of vegetarian/vegan-friendly cities.** Who would've thought?

The designation comes from the high-profile People for the Ethical Treatment of Animals (PETA). PETA said "We've searched the United States and Canada for the best vegetarian friendly cities, and we've compiled our lists. State capital Austin might be University of Texas Longhorn country, but **many folks in this vegetarian-friendly oasis would rather meet cows than eat them.**" Portland, Seattle and San Francisco were #1, #2 and #3.

PETA exclaimed "In Austin's world of cafes, there are many great choices," and then it ticks off a few for the vegetarian/vegan crowd: **Bouldin Creek Café, NuAge Café, Mother's Café.** Also, **Mr. Natural, Casa de Luz, Kerbey Lane Café, Shanghai Café and Veggie Heaven.** In its report about Austin, PETA even touts **Thundercloud Subs** that "serves up lots of vegetarian options."

"Whether you're a long-time devotee of vegan eating or are just curious, meet up with Vegans Rock Austin, which provides a great way for animal-friendly folks to socialize and come together to do what vegans do best – eat!," noted PETA. **No Texas town made PETA's list of America's Best Vegetarian-Friendly Small Cities.** That's probably because it's been our experience rural Texans mostly tend to fight over the best barbecue or best chicken-fried steak.

Dr. Louis Overholster thinks it would be great if the phrase "melting pot" applied to stomachs!

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