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YESTERDAY'S MARKETS

American Banker 225	▼	2.6%
American Banker 50	▼	2.3%
Dow Jones Industrial Average	▼	1.3%
Standard & Poor's 500	▼	0.7%

10-year Treasury yield 6.126%, down 0.015

TODAY'S NEWS

Big banks are making a major push to expand their small-business clientele. *Page 2*

A compromise on digital signature legislation is expected soon, clearing the way for quick adoption by the House and Senate. *Page 3*

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An anti-money-laundering bill won approval from a House panel but still faces Senate opposition. *Page 4*

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The parent company of Standard & Poor's has sued the Vanguard Group, claiming it used S&P's trademarks without permission. *Page 8*

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Podesta Deals Small Banks Tough Love *Pushing management to sell, analyst insists it's nothing personal*

BY CRAIG WOKER

David B. Moore and Christopher R. Raffo make no apologies for publicly berating community banks, pressuring them to sell, and picking fights with management.

The blunt-spoken duo, who little more than a year ago formed a bank research and brokerage arm at Chicago-based Podesta & Co., said their job is to provide no-nonsense investment analysis — whether the community banks they track like it or not.

"The arguments aren't personal against management," said Mr. Moore, who as Podesta's sole analyst researches two dozen Midwest and California community banks. "We just want to remind them that they're running publicly traded companies and their primary responsibility is to max-



Alan Rich

Smile when you say that: David Moore refuses "to put a happy face on everything." Says Christopher Raffo, "At least I can look myself in the mirror."

imize shareholder value."

Their tactics are anything but conventional.

Calling themselves "shareholder advocates," not "shareholder activists," They have

helped orchestrate investor uprisings, including recent battles at \$4.4 billion-asset Amcore Financial Inc. in Rockford, Ill., and \$121 million-asset PS Finan-

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Card Groups Fail in Bids To Block Trial

Visa, MasterCard win a ruling on evidence

BY LISA FICKENSCHER

The presiding judge in the Justice Department's antitrust lawsuit against Visa and MasterCard denied the card associations' request to have the case thrown out but said in a pretrial hearing Thursday that they had "strong arguments."

"We need a trial," said Judge Barbara S. Jones after hearing defense lawyers argue for summary judgment and lawyers for the government present portions of their case.

The hearing, a curtain-raiser

Chicago's Podesta & Co. Stirs Things Up

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Financial Inc. in Chicago. They also routinely fire off curt letters to banks urging them to sell, such as one to \$483 million-asset Princeton National Corp. of Illinois recently in which Mr. Raffo told the board to stop "screwing its shareholders" and find a buyer.

Mr. Raffo contends that many publicly traded banks and thrifts wait too long to pull the trigger because they worry about the impact on the community and employees instead of shareholders. He said that executives who had the chance to sell during the past three years at a premium and did not "should have their dunce caps on and be getting spanked."

"They should have to explain in front of the classroom why they were so stupid to miss their window of opportunity," said Mr. Raffo, senior vice president who heads Podesta's banking group and directs sales.

Mr. Raffo and Mr. Moore say they can be more outspoken than most analysts because Podesta — a 17-year-old broker-dealer that specializes in municipal bond work — does not operate an investment bank. As they see it, investment bankers put pressure on analysts and brokers to tout questionable stocks so that the firm can gain more merger-and-acquisition or stock-offering business from the firms covered.

"If we had an investment banking arm, we'd have to put a happy face on everything," said Mr. Moore, previously a Washington-based analyst with Hovde Financial LLC, the investment-banking firm.

Case in point: Sean J. Ryan, a former analyst at Bear, Stearns & Co. in New York. Earlier this year, Mr. Ryan left Bear Stearns with plans to start an independent research firm after he claimed he was muzzled for his bearish comments on First Union Corp. of Charlotte, N.C. First Union ultimately yanked its bond-trading business from the investment bank.

Podesta's straight talk has drawn kudos from its customers — mostly institutional investors



Christopher Raffo says those who failed to sell in a hot market should have to explain "why they were so stupid."

who stand to profit from a sale.

"We like their independence," said Bill Nasgovitz, president of Milwaukee-based Heartland Advisors Inc. and portfolio manager for its \$2.5 billion-asset Heartland Value Fund. "I know they're giving us unbiased analytical viewpoints, and they're not afraid to speak out."

Not surprisingly banks and thrifts on the receiving end of the pair's jabs are less fond of their work. Most declined to be interviewed for this article or did not return phone calls, but a spokesman for a past Podesta target said, "We don't like to talk about certain analysts that think they have a great idea how our company should be managed."

Another past target — John Keach Jr., president and chief executive officer of Home Federal Bancorp in Seymour, Ind., — disagreed with Podesta's tactic in pushing his company toward a sale and questioned its notion that a merger was the only way to boost performance.

The thrift was in the midst of converting from a portfolio heavy in home mortgages to one more like a commercial bank when Mr. Raffo came knocking last summer.

Mr. Raffo expressed concern over the direction of the company's stock price and suggested it was time to sell the \$807 million-asset thrift.

Mr. Keach said he took the advice under consideration, but Mr. Raffo wanted to see action. So after months went by and no sale ensued, Mr. Raffo drafted a letter to Mr. Keach and the company's board. He also took the dispute public by calling the Indianapolis Business Journal, which in late January ran an 852-word story publicizing the situation.

But Mr. Keach said his hands were tied in what information he could divulge to Mr. Raffo or the media. He cited U.S. Securities and Exchange Commission rules that prohibited him from discussing merger negotiations.

"We were disappointed by the tactics they took," Mr. Keach said. He added that he faces a delicate balancing act of tempering "activist" investors' short-term performance objectives against "what's in the best long-term interest of shareholders."

"We try not to run this company on a quarter-to-quarter basis," Mr. Keach said. "I'm not judging the activists or their causes or their issues. But from our standpoint, we must stay disciplined."

Mr. Moore agrees that financial institutions should manage for the long term, but he said they must justify their independence by outperforming potential acquirers. If neither he nor Mr. Raffo can see that happening, the bank or thrift likely will hear about it from them.

For instance, Mr. Moore calls

\$13 billion-asset Commercial Federal Corp. of Omaha a "woolly mammoth" that keeps "sinking further into a tar pit." He also accuses \$12 billion-asset Associated Banc-Corp. of Green Bay, Wis., of "abusing their shareholders" by continually refusing to sell out.

Mr. Moore is not critical of all the companies he covers. He is particularly bullish on \$1.6 billion-asset Mississippi Valley Bancshares Inc. in St. Louis and \$6.4 billion-asset Community First Bankshares in Fargo, N.D., and suggests that both would perform better as independents.

Some investors say they would like to see other firms be as forthcoming as Podesta, blaming the often cozy relationship between investment bankers and analysts for squashing independent thought.

Dan Bandi, a former community-bank analyst at Columbus-based Ohio Co., said the pressure on analysts to brighten their coverage "gets a little worse every year" and creates a void of "quality research." Mr. Bandi left Ohio Co. before Cincinnati-based Fifth Third Bancorp swallowed the company in 1998 and merged it into its other broker-dealer businesses.

He said the wider research done on big banks lends greater opportunity for independent coverage but he added that the investment/banking relationship remains a concern.

"There's always pressure not to say anything bad about a banking client and not to downgrade their ratings," said Mr. Bandi, who now is portfolio manager for the

Armada Small Cap Value Fund, a mutual fund operated by National City Corp. of Cleveland. "It's hard to communicate what you believe to be the truth."

A New York investment banker with a small firm specializing in bank stocks agreed. Speaking on the condition of anonymity, he said his firm, which places an emphasis on small-cap companies, performs its own internal analysis and discounts most other firms' published research because "they face too many conflicts of interest."

"What I generally see in research is a parroting of management," he said. "I don't see analysts taking what management says as only one of the potential views of what's really going on."

Though Mr. Moore and Mr. Raffo's stock picks may not be infallible, customers said they feel better working with Podesta because they can avoid questioning the motives behind its recommendations.

"They're not always perfect, but their angle on things is helpful," said Ken Brusda, the president of \$580 million-asset North Star Asset Management Inc. in Menasha, Wis. "Those guys also are able to stir up the mud a little bit. I like that. They have a good feel for what's going on."

But giving up potentially lucrative investment banking profits leaves it up to Mr. Raffo to bring in the firm's income just through brokering bank stock trades — a business that has declined as the industry has lost favor with investors.

Mr. Raffo said early this year that his total brokered transactions, on which he earns commissions, were at about the level of 1998, when he resigned from a sales job at Chicago-based Howe Barnes Investments Inc., a community bank research and investment firm where he had spent six years.

More money or no, Mr. Raffo said, "a least I can look myself in the mirror every day and know I'm not out there lying to my customers."

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