



## Wachovia's Lead Director Says Board Backs Thompson (Update4)

By David Milkenberg



[More Photos/Details](#)

April 15 (Bloomberg) -- **Wachovia Corp.** Chief Executive Officer **Kennedy Thompson** said in May 2006 that it would take "huge unemployment and a huge downdraft in home values" for the bank's acquisition of Golden West Financial Corp. to flop.

Two years later, the \$24.6 billion **takeover** of Oakland, California-based Golden West is the biggest cause for the fourth-largest U.S. bank losing half its market valuation, cutting its dividend by 41 percent and selling \$7 billion of stock to boost its capital in the face of likely further credit losses.

Wachovia's **board** remains strongly committed to Thompson's team, lead independent director **Lanty Smith**, 57, said in an interview yesterday.

Learning from the Golden West experience, Wachovia's board "is going to be extra cautious in any future acquisitions," said Smith, a board member since 1987.

"What they missed was that prices had to come down in California and when that happened, it was going to cause all kinds of economic havoc," said **Christopher Thornberg**, founding partner of Los Angeles-based research and consulting firm Beacon Economics LLC.

Wachovia fell 13 cents to \$25.42 at 4:15 p.m. in New York Stock Exchange composite trading after slumping 8.1 percent yesterday. The stock fell 33 percent this year to date.

### Analysts' Cuts

Two analysts today reduced their profit predictions for Wachovia. Meredith Whitney of Oppenheimer & Co. cut her fiscal 2008 earnings estimate to \$1.70 a share from \$2.70. She cited subprime credit losses and the share sale, which diluted existing stock by 15 percent. Michael Mayo of Deutsche Bank reduced his estimates to \$2 from \$2.80 for this year and to \$2.90 from \$3.90 for 2009. Mayo also cut the share price estimate for the bank by 17 percent to \$29.

**Thompson**, 57, said yesterday he was "deeply disappointed" by the Charlotte, North Carolina-based company's first quarterly loss since 2001. The **\$393 million loss**, or 20 cents a share, was worse than the 40-cent profit predicted by analysts. The housing decline is half over with further credit losses ahead, Chief Risk Officer **Donald Truslow** said.

Wachovia raised more than \$7 billion yesterday by selling common and preferred shares, mainly to its largest investors, Smith said.

"The good news is that the marketplace still has a lot of confidence in our franchise," said Smith, a former textile industry executive who's president of Tippet Capital LLC, an investment and merchant banking firm in Raleigh, North Carolina.

### Thompson 'Capable'

Thompson's position as CEO seems secure partly because so many other financial services executives are facing difficulties, **Jason Goldberg**, an analyst at **Lehman Brothers Holdings Inc.**, said in a Bloomberg TV interview. He has an "overweight" rating on Wachovia.

"Thompson is capable of weathering this storm" Goldberg said. "We don't know anyone else who is better than him to get through this."

Thompson was initially optimistic about the "transformative" nature of the Golden West deal. The bank studied Golden West's successful 43-year history through California's cyclical housing economy, and concluded that its model of underwriting and then holding adjustable-rate loans with flexible terms, rather than selling them to secondary investors, was convincing, he said.

"Maybe Golden West was the best of the irrational lenders in the West Coast lending model, but it was bad money nonetheless," said **David Hendler**, a New York-based analyst at CreditSights Inc.

#### Mortgage Defaults

Wachovia now expects as much as 8 percent of its \$120 billion in so-called option adjustable-rate mortgages to default over the life of the loans. The bank's previous estimate was for losses of less than half that. Even that may be optimistic, said Beacon's Thornberg, a lecturer in economics at the University of California at Los Angeles.

"California real estate remains in total free fall with foreclosures accelerating at a phenomenal rate in the past two quarters," he said. "The real pain is just starting to come out right now, though it was imminently predictable a year ago."

Wachovia's nonperforming assets, for which it doesn't collect interest, totaled 1.7 percent as of March 31. "In the 1990 recession, NPAs got to 3.1 percent, so if Wachovia is one of the companies worst hit in this cycle, their nonperforming assets could more than double from here," said **James Eilman**, president of San Francisco-based Seacliff Capital LLC, which manages about \$200 million.

Aside from home lending, Thompson is scaling back Wachovia's corporate and investment bank as demand for packages of home loans and other complex securities shows no sign of rebounding. Wachovia is cutting 500 jobs in the unit, bringing to more than 1,000 the number of positions eliminated since early 2007. The bank said it had 121,890 employees as of Dec. 31, 2007.

To contact the reporter on this story: **David Mildenberg** in Charlotte at [dmildenberg@bloomberg.net](mailto:dmildenberg@bloomberg.net)

*Last Updated: April 15, 2008 16:39 EDT*

