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Huntington Bancshares Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Ken Zerbe of Morgan Stanley. Your line is open.

Ken Zerbe - Morgan Stanley

Thank you. First question is on Franklin. I was hoping you would review the cash flow trends a little bit there. Just in a little more detail. I saw the presentation. It does appear that they are still well above your, total cash flow expectations, but the difference does seem to be coming down quite sharply. At what point do you have to go back and re-evaluate this?

If you could also just talk about the actual covenants that you have with Franklin because actually I thought I read through the covenants and it did not seem it was on a total cash flow basis but yet it was on, say, an interest coverage basis. Just if you could go into that, that would be great.

Tom Hoaglin

Ken, I am going to ask Tim Barber to respond to you.

Tim Barber

Ken, there are a lot of questions in there. The first one would be clearly the cash flow has declined over time. We are focused more on the relative stability over the last six months than comparing it to a year ago or even very early 2008 numbers. As the portfolio declines, the cash flow will also fall.

We are also looking at the OREO segment or the recovery segment as a significant piece of future cash flows. That is not necessarily reflected in the current levels and that again is a function of the performance over time. They are focused on working the OREO properties or the defaulted properties through the system. So that is one of the reasons we continue to feel comfortable about the cash flows.

Tom Hoaglin

Just to interrupt, Tim for a minute here, what we are experiencing and I feel quite certain others around the country are and what Franklin is experiencing is a court system that is just engulfed in paperwork from lenders trying to gain control and sell properties. So there has been a bit of a slowdown in collections from OREO. That does not mean that the collections will not be achieved. It just has changed a bit, the timing of those over the last few months. Tim?

Tim Barber

Yes, I think that is fair and we were pleased to see the amount of OREO proceeds increase in the month of September relative to July and August within the third quarter. As it relates to the covenants in the agreement, the original covenant was an interest coverage ratio. The more current covenants reflect total cash collections versus debt service requirements.

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