

CNBC “STRATEGY SESSION” INTERVIEW WITH BRUCE BERKOWITZ

**June 9, 2011
11:00 a.m. ET**

CNBC: We're back on Strategy Session.

Goldman Sachs, Morgan Stanley, even Bank of America shares, all higher today, and that is good news for holders of the Fairholme Fund, which counts many a financial amongst its top holdings. Bruce Berkowitz is the highly successful manager of that fund, which has had an uncharacteristically poor year thus far due in part to all of those financials in his portfolio. He joins us in an exclusive interview from the Morningstar Investment Conference in Chicago.

Bruce, I'm told your voice is not doing so well. You apparently had some plane troubles there too, but we're glad you're with us. Why all the financials? Why do you continue to hold so many financials, especially given what seem to be so many concerns as reflected in the performance of their stocks?

Bruce Berkowitz: Well, to me, it's very much déjà vu all over again with the financials. This is exactly what I did in the early 90s. It's very reminiscent of the early 90s. And how can you not buy companies selling below tangible book value that are essential to the country?

CNBC: Well, you may have to wait a while. And I just wonder, you know, when you own 6.5% of your portfolio or more is in Bank of America, Citi is almost 5%, Regions Financial is 4.5%, Morgan Stanley is 5%, Goldman Sachs 5%, are you willing to sit there and wait? I could have made the same argument a year ago.

Berkowitz: Don't forget AIG.

CNBC: Right, of course. How could I ever forget AIG? Which we'll get to in a moment.

Berkowitz: I know. But that's why my voice is so bad. I'm suffering from premature accumulation.

CNBC: Let's talk about Bank of America. I want to get to AIG in a minute. That one more than any other has suffered. There's concerns about the mortgage portfolio at the bank, the slowing economy, rising severities on certain portfolios of subprime, for example, of which it still has exposure through Countrywide. What gives you the confidence that this stock trading now back where it was two years ago is going to ultimately be higher?

Berkowitz: Well, I think Brian Moynihan is doing a great job. He's ahead of the curve. He's lowering late fees, he's doing everything that's right. But the problem is that Brian and Bank of America are being kicked around like a dog. They're being blamed for events that have taken 10, 15 years to unfold and that has to stop. It's time for everybody to get together, settle up and move on, and that will happen.

CNBC: Bruce, I am a little bit surprised when you talk about Moynihan because your success has been really based on looking at the numbers, buying companies as you say that you're looking at from a quantitative standpoint buying value. You've got to believe that part of the issue with Bank of America, whether it's right or wrong, part of the issue has got to be the idea that a lot of participants do not believe Moynihan is the right person for that role, given what's happened to the company in the public markets since he became CEO. So are you essentially endorsing, while a number have called for change in management, are you saying that you believe Bank of America management should stay as is?

Berkowitz: I think he's doing a good job. Tangible book value is up. They're making money. I know the trends are going in the right direction. He inherited commercial credit. They're burning through it. It's going to take another year, year and a half. But commercial credit issues are hiding everything else that there is at Bank of America. They are generating a tremendous amount of money, 45, 50 billion dollars a year. They're generating pretax, preprovision. Compare that, which is 4.5, 5 dollars a share, they are priced for disaster already.

CNBC: Yeah. I mean, one does wonder why this stock is back where it was two years ago. I think most people would be hard pressed to say things aren't any better two years later.

Bruce, when you talk about the trends going in the right direction, what are you talking about specifically?

Berkowitz: I'm talking about delinquencies, charge-offs, bad loans. You know, the whole mortgage mess. Most of it is based on what was done in 2007 and 2008. Today, less than 40% of 2007 loans remain. 2008, less than 50% remain. They're burning through. Their half lives are over already. It's just a matter of another year for everyone to fully see it.

CNBC: Bruce let's talk about AIG. Were you pleased with the way the re-IPO was handled? Were you pleased with the pricing the way the banks priced it? And more importantly, did you and Fairholme participate and increase your position in AIG as a result of that re-IPO?

Berkowitz: Well, let me say this. I overestimated the powers of government and underestimated the powers of Wall Street. I think whoever participated in that public offering did very well and they will do well. And yes, we did participate.

CNBC: So you raised your position in AIG.

Berkowitz: Yes, we did.

CNBC: Why?

Berkowitz: AIG at half a book value. Chartis, great global franchise on America... other pieces, made in lane two, made in lane three, and there's more, but one-third of AIA, I really don't understand the price, but a lot of the times, I don't. It seems to be my life, to go in early, catch falling knives, get all bloodied up and hopefully eventually everyone figures it out.

CNBC: You had a lot of people move into your fund; the assets grew substantially given your incredible performance. Not just last year, but in years prior. But, what do you say to those who at this point are looking at AIG, for example, which helped fuel so much of Fairholme's gains in 2010, people who moved into your mutual fund in the last six months and are going, what is going on here?

Berkowitz: I'm smack dab in the center of my circle of competence, I grew up in the financial services business doing it for almost 30 years. I've studied these companies for decades. This is how I made my money in the early 90s. At the time it was Wells Fargo. Wells Fargo was going bust. Everybody was shorting Wells Fargo. Well, it only went up seven or eight times in as many years. I don't know how the banks are going to work out this time, but they're very cheap. They're priced to fail. And we're going to make some good money.

CNBC: Bruce, another high profile nonfinancial situation you were involved with is St. Joe, a real estate holding company down there in Florida. On the other side of that, David Einhorn now, the minority owner of the Mets. Bring us up to date. That was a situation where you were not happy with management and you did want change. Bring us up to date in terms of what's happening at St. Joe or where you stand on that.

Berkowitz: Since February we've been going through all the assets of the company, we're finding a few assets we didn't know existed. We're looking under the ground, we're looking over, we're better understanding the airport. The airport has about 20 flights a day now coming in and we're trying to figure out the best and better use for all the land. There's nothing more, we've dramatically reduced our expenses. We're going to stop the bleeding. We're going to wait and let the market come to us. We have almost 600,000 acres of land. 80% of it is within 20 miles of the Gulf of Mexico. Some of the most beautiful beaches in the world, it's going to take time. They're reasonable people. Discuss the price, but we have dozens of projects that are in the works.

CNBC: A man who is waiting and is willing to be patient. Bruce Berkowitz, thank you, as always, for joining us. I hope your voice gets better. I look forward to you joining

us in studio where I can reach out and touch you and you have that nice voice fully functioning again.

Berkowitz: Thank you.

CNBC: You're very welcome. Bruce Berkowitz, Fairholme Capital Management. That does it for "Strategy Session," by the way.