

TIGHTENING COMPETITION

by [Steve Brown](#)

The financial services industry is one of the most competitive in the world. Yet, people go about their business each day, without thinking much about potential lurking danger. The snake moves at night in order to catch the mouse unaware. These days it is next to impossible to find an independent banker who won't say competition has been increasing. To help raise awareness of potential threats, here are some facts every independent bank executive should know. 1) A recent Grant Thornton survey found 74% of independent bankers view other independent banks as serious competitors, 69% cited credit unions and 58% mentioned national banks. 2) Last year, Wells Fargo increased its small business lending by 30% on a year-over-year basis, originating over 680k loans nationwide. This sector represented more than 7x the growth rate for all other lending at the bank. 3) Wachovia, meanwhile, reported average loans in its small business segment increased 11% from the 3Q of 2005 to the 3Q of 2006. In addition, the bank reported in its financials that as of the 3Q, loans in its small business segment produced an average 86% risk-adjusted return on capital, one of the highest in the bank. Given such strong performance, it is no wonder nearly all national banks have significantly ramped up small business lending. 4) The small business and consumer banking segment was the largest bottom-line driver at Bank of America. BofA indicates the segment accounts for roughly 54% of earnings and delivers a 21.31% ROAE. In addition, for the 9th year in a row, the bank was named the top SBA lender in the country. Statistics also show BofA does business with 1 in 5 small businesses in its footprint. 5) E-LOAN now offers commercial loans for properly types including retail, office, self storage, hotel, healthcare and others. Loans up to \$2mm, 7Y fixed with a 30y amortization and up to 90% LTV can be originated. In addition, business working capital lines are also available. While it is hard to tell how much business they are generating, they tout the process eliminates loan committees, ongoing financial reporting and covenants and requires no deposits. 6) As of June 30, there were 61 ILCs in the country. Combined, these entities hold \$161B in assets and \$111B in deposits. Some of the largest in order are Merrill Lynch, UBS, American Express, Moran Stanley, Fremont, USAA and GMAC. Examining the loan portfolios of each, it appears roughly 50% of loans are commercial. 7) In the 3Q, the credit union industry reported business lending was the fastest growing category, rising at a 24% clip over the prior quarter and a 31% pace over the trailing 12 months. In CA alone, CUs that offer business lending saw a 92% increase from 2002 to 2005 (to \$5B), while banks in the state experienced a net decrease of 10% over the same period. 8) FRB studies show about 37% of small businesses use an independent bank, down from 42% in 1998. Meanwhile, those using a non-depository institution jumped from 40% to 54% over the same period. 9) The SBA reports that more than 50% of all loans originated to small businesses come from a handful of national banks (up from about 33% 10 years ago). 10) The SBA also reports pricing spreads for the average small business loan have plunged from P+1% to P-50bp over the last 3 years. 11) So much so, in fact, VISA reports small business usage of its credit cards as of the 2Q is growing at a 32% compound annual growth rate (and now accounts for \$190B in purchases). As the points above indicate, to remain competitive, independent banks will need to better understand small business credit and provide products and services that highlight convenience. As you ponder today's discussion, note that we'll keep poking around in an effort to help you avoid the snakes.

BANK NEWS

M&A

Intuit said it will acquire banking software company Digital Insight in a cash deal worth \$1.35B. Digital provides online banking software to financial institutions including 1,524 banks on internet banking and 684 doing business banking as of the end of the 3Q.

M&A

Family Bancorp (New, TX) will buy First National Bank of Refugio (\$49mm, TX) for an undisclosed amount. Interestingly, of the \$49mm in total assets at First National, approximately 75% are in securities and FF (as of 9/30/06).

Cyber Attack

The U.S. Computer Emergency Readiness Team (didn't know we had one), a private & public partnership with the Dept. of Homeland Security, warned of a denial of service attack against banks between today and New Years. The warning went out after a call to action was posted on a known Islamic militant group's web site.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.