BECOME MORE COMPETITIVE BY SELLING LOANS

by Steve Brown

Given the Dec. 6th release of the Final Regulatory Guidance on Concentrations in CRE Lending, bankers have taken a renewed interest in testing the liquidity of their loan portfolio by selling participations. Aside from proving to regulators that loans are liquid and marketable, selling participations has a variety of other benefits. Most important for bank performance, getting feedback on what the market will accept in terms of underwriting, documentation and credit management is important information banks can use to structure more valuable loans. Bank management can see first hand how things like prepayment penalties, pricing and covenants all play a role in creating market value - either in the market or on a bank's books. Just learning how to conduct a sale is instructive. For example, banks will usually pay more for a loan that is scanned and in electronic form because it reduces their review time and processing cost. Aside from gaining market knowledge and feedback on the underwriting process, selling participations is an excellent way to manage balance sheet risk. Concentration issues, interest rate risk and high cross-correlations can all be better managed by selling loans. By increasing diversification, banks may be able to offer lower loan pricing in their market and still garner the same return (due to reduced risk). This means greater future loan volume, in addition to happier customers. If all that isn't enough, there is the simple aspect of ROE. Take any loan and we can show you how ROE can be increased by selling a portion of it. Selling loans allows the lead bank to not only immediately capture accrued fees, but garners banks an increased fee income stream in the form of a servicing spread Â– again, all at lower risk. For banks that are above 90% loan-to-deposits, the story gets even more compelling. Selling participations frees up both capital and funding pressure, boosting margins (while allowing banks to keep the client relationship). We looked at a group of loans originated in December by independent banks. Our research found that leveraged banks gained a 16% ROE for loans booked. However, if these banks had participated 50% of each loan booked, their growth would have been slower, but their shareholders would have gained an average 22% ROE (plus reduced risk). Banks interested in selling participations anywhere within the 50 states should contact the Banc Investment Group or Pacific Coast Bankers' Bank. See how our platform reduces sales and servicing hassles on the path to greater performance.

HOLDING COMPANY LOANS

While we are on the topic of selling loans, how about refinancing your bank holding company loan ("BHC")? We have arranged pricing for BHCs starting as low as Libor + 1.65%. Loans can be either fixed or floating, term or revolving (great for back-up liquidity), or include any combination. While maturities can be any duration, a common 10Y term allows banks to downstream Tier I capital to the bank operating company. If you are thinking about decreasing the cost of capital or increasing funding options, call us to get started.

BANK NEWS

M&A

Wells Fargo & Co. said it will acquire Placer Sierra Bancshares ($2.7B, CA) in a stock swap valued at about $645mm or approximately 1.5x book equity. Recall in November, Placer Sierra's largest depositor said it would withdraw all its deposits and consolidate operations to the Midwest by June

2007. That client (a mortgage company) planned to withdraw about $274mm in non-interest bearing deposits, represented 12.6% of total deposits and 30.2% of non-interest bearing deposits.

M&A

Needham Cooperative Bank ($561mm, MA) will merge with Dedham Cooperative Bank ($87mm, ma) to create a new single entity called Needham Bank. No further details were undisclosed.

More Competition

Joining the ranks of Bank of America and Wells Fargo, the parent of Union Bank of California said it is shifting its retail banking strategy to focus on high net worth customers and small business owners. The bank has 336 branches in CA.

Real Estate

Cushman & Wakefield finds Los Angeles County's vacancy rate was 10.5% in the 4Q, down from 12.3% last year. Meanwhile, average rents climbed 8%.

Housing Sector

In a sign the housing market retrenchment has more to go, D.R. Horton Inc. (one of the nation's largest home builders) reported its late-2006 sales orders fell 28%. Horton also reported its cancellation rate is running at about 33%. Meanwhile, another big homebuilder, Meritage Homes Corp, reported 4Q net sales orders fell 42% and cancellations hit a record 48%.

Curious

Bankers having difficulty raising deposits may want to know that a new survey finds Americans would rather lose weight in 2007 than reduce their debt load. Unfortunately, the same survey found 31% of respondents said paying off their credit card would be difficult.