

## ANTI-MONKEY POWDER FOR LOANS

by [Steve Brown](#)

At a recent bank visit, the CEO was showing off his board room. There on the walls were the impressive banking awards, the community service recognitions and the mementos from opening. After showing us, the CEO got serious and said, "Here is something special, this is our Anti-Monkey Butt Powder. Sometimes a bank needs a little Powder, if you know what I mean." We do understand all the butt-busting activities that goes on within a bank. We also realize that we just wrote a piece on toilets, and we don't want to get all third-grade, but we would like to submit to you the Banc Investment Group's own Anti-Monkey Butt solution for loans. Next to funding (see our Liability Coach product for help there), the loan portfolio creates the most chaffing for executive management. As such, we like to suggest some National C&I loans to help with this friction. Maybe your loan growth isn't where it should be, maybe you are looking to diversify away from construction or maybe you just need some bulk to cover fixed costs, the National C&I loan is an excellent alternative and is analogous to using brokered CDs for funding. The process is this - we purchase a large position (\$10mm to \$25mm) in National C&I credits that we like and then divide it up to interested banks around the country. These are household names that have \$500mm+ debt outstanding to them (to add some liquidity to the loan) which are originated by a national bank. Most all these loans are fully funded, are floating off Libor/Prime and have an average maturity of 5Ys. To meet our basic criteria, Companies must have an established business (5Ys of operating history), have a strong capital base and have a diversified revenue stream. When shocked, these credits must be strong enough to weather a short-term downturn akin to the quasi-recession we had in the early '90s. These loans are rated by either S&P or Moody's "BB-" or higher and are not on Watch for downgrade. These credits all fall under the Shared National Credit Program and undergo regulatory review on a regular basis. Pricing ranges from Prime to Prime less 1.25% and most loans have 25bp upfront. We find these loans, deliver them to your door via a participation agreement and handle the servicing for you for a minimal 5bp fee. As a result of these economics, these loans produce over a 25% risk-adjusted ROE, which we would argue may save redness from a profitability standpoint alone. Minimum piece sizes we would like to suggest is \$2mm, but we have often been talked into lower amounts. Many banks (and we can give references) utilize the strategy of approving \$10mm on their books and pick up 5 different loans for \$2mm each. This has the added advantage of mitigating some credit risk through diversification of cross-correlations (exposure to different industries that don't move together) With each credit package, your are getting audited financials, the rating agency report, a write up and various pieces of analytical material on the credit. As a result, your underwriting package is usually far superior compared to your other loans (how many of your loans contain shocked DSCR?). If you are looking for a little relief from loan portfolio redness, we would like to suggest that these National C&I loans are just powder you need to allow a little more freedom of movement. This is a far better alternative than being forced to lower credit standards or customer profitability in your local market. Spread some gradually or all at once - whichever makes you feel more comfortable. Our new offerings come out every Tuesday. To see a list of available loans (you may already be getting these), contact us via e-mail and if you would like, request a current transaction so you can take a look at a credit package. In the meantime, we promise we will stop with the bathroom topics.

# BANK NEWS

## **Home Help**

In conjunction with the Treasury Dept., 11 mortgage lenders have banded together to form "HOPE NOW." This organization is aimed at helping homeowners avoid foreclosure. In related news, the OCC asked for help from community banks saying that our industry has the understanding and channel to help mortgage borrowers in ways that a national firm cannot.

## **Debit Cards**

The Treasury Dept. received 15 applications from national banks to provide debit cards to the unbanked in connection with Social Security and other programs. The deadline for a final decision is Nov. 16th to go live in Jan.

## **More Staff**

According to a recent poll by USA Today and CareerBuilder, 35% of bank/finance employers will look to hire new staff in 4Q (compared to 27% for all firms).

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