INFORMATION BANKERS WANT TO KNOW

by Steve Brown

Imagine not being able to eat pizza, mozzarella cheese sticks or lasagna anymore. We don't know if you caught the news blurb, but the Italian government found high levels of dioxin (a cancer-causing toxin) in buffalo mozzarella cheese from some dairy farms around Naples. For decades, this region has reportedly been the site of toxic trash dumping, which the buffaloes in turn have eaten. Community bankers are known to eat cheese and they also want to understand how things in the environment can impact them, which is the tie-in this morning to this section.

In banking, stresses remain. Industry earnings in the 4Q reached a 16Y low, as writedowns accelerated.

In housing, things remain dicey. Consider that the spread last month between the 10Y Treasury and the average fixed rate mortgage was 270bp. That is the widest spread since 1986 and shows banks are hoarding capital in an effort to rebuild tattered balance sheets. Additionally, the national vacancy rate increased 2.8% in the 4Q, which pushed the needle to almost 18mm homes standing empty nationwide. That is the most number of empty homes on record (data back to 1956). A recent report from Moody's indicates it does not expect to any meaningful financial improvement in homebuilders before 2010 at the earliest.

In home equity, experts worry this will be the next shoe to drop. Americans have taken out $1.1T in home equity loans. That normally wouldn't be a big problem, but total loans outstanding (i.e. 1st and 2nd TD) are now backed by less than 50% in equity value - the first time this has happened in decades. This will put strain on consumers and could increase defaults. In December, 5.7% of home equity lines of credit were delinquent or in default, a 27% increase over the prior year. Countrywide, Wells, Bank of America and many other large home equity players have suspended lines to customers whose property values are not high enough above outstanding loan balances to continue. Even more disconcerting, consider that 33% of all subprime loans originated in 2006 also had home equity loans tacked onto them.

In credit cards, problems are also surfacing. A recent review of the largest lender portfolios finds payments at least 30 days late averaged 4.1% last month, the highest level since 2004 and a 17% increase over the prior year. At the same time, defaults are up nearly 20% and those delinquent 90 days or more are up 50%. In January, average debt on credit and accounts such as auto loans climbed to $16,600 (a 7% increase from last April). Finally, Bank of America executives in January said credit card delinquencies in CA, FL, AZ and NV (states where housing has come under significant strain) were 500% above levels seen in other states.

The commercial sector could be next. Moody's predicts CRE property valuations will fall as much as 20% from current levels, as tighter credit markets push private equity investors out of the market and leverage is reduced. Increasing pressure on the sector, bankers continue to experience ongoing construction deterioration and reduced real estate liquidity. Meanwhile, quarterly losses on commercial and construction loans have jumped to their highest level in 3Ys.

Out of risk also comes opportunity. Despite all of the worries permeating the market, community bankers are also some of the most resilient and hard working people we know. Stay focused, keep service levels high and don't eat cheese without checking the label. We firmly believe community banks that do these things will eventually come out on the other side of this credit mess even stronger and more prepared.

BANK NEWS

BofA Countrywide

The Fed unusually asked for a set of public meetings to hear comments on the proposed merger. The meetings will take place at the end of April in Chicago and Los Angeles and will give consumers a chance to air concerns.

Fed Help

The first Term Securities Lending Facility (TSLF) Auction to bring liquidity to the Primary Dealers saw a low bid-to-cover of 1.15x. The auction results indicate that dealers are under less stress than previously perceived.

Market Capitalization

Wells Fargo surpassed Citigroup last week on market capitalization due to the recent turmoil for bank equity valuations. Bank of America retains its No. 1 spot followed by JP Morgan Chase and Wells Fargo. From an asset perspective, Citi remains No. 1 followed by BofA.

OCC

The regulator issued guidance that stresses the importance of reviewing the asset allocation in each fiduciary account for which is has discretion in order to ensure the allocations are appropriate.

Consumer Weakness

A study completed in February finds 25% of consumers have at least one bill that is 30 days or more delinquent. The credit card bill was the most likely to be overdue, while the home mortgage was the least likely.

Student Loans

A recent survey by the Nat'l Association of Independent Colleges and Universities shows that 46% of student loan lenders are tightening credit, while 43% said they are no longer providing private label student loans.