

## GOOD NEWS - BAD NEWS

by [Steve Brown](#)

This has been a crazy past few months for community bankers and yesterday was no exception. To kick things off, the FRB released its March FOMC Meeting Minutes and the tone was very bearish indeed. In it, policymakers worried a deep recession could occur, which was one reason they cut the Fed Funds rate by 75bp. There has been so much news that we thought a quick "good news/bad news" recap would be helpful this morning.

**Stability - Bad news:** An 85Y old institution, Bear Stearns is gone. **Good news:** the JPMorgan Chase takeover of the company moved forward with the purchase of 95mm newly issued shares of stock for 39.5% of total common stock post-issuance.

**Banking - Bad news:** In the 4Q, banks booked record-high loan loss provisions, restated earnings and otherwise struggled with regulatory and shareholder scrutiny. A full 25% of banks lost money in the 4Q, annual median ROA fell to 0.79%, earnings tanked to a 5Y low and almost 12% of institutions were unprofitable (highest since 1991). **Good news:** Capital ratios remain relatively strong and asset growth continues to be decent.

**Oil Prices - Bad news:** The government projects gasoline will be \$4 per gallon for the summer, which could negatively impact tourism. **Good news:** The first ever bike-sharing program will be launched in the U.S., giving annual subscribers in Washington, D.C. access to 100 bikes at 10 locations around the city. Commuters can save on gas prices by checking out a bike to ride to work (after taking a train) and checking it back in at the end of the day. Cities next in line for the program are expected to be San Francisco and Chicago.

**Housing - Bad news:** It is estimated that 20% of all home sales are short sales these days. Land in many areas under stress is being sold at 30% of appraised value. The National Association of Realtors reported sales of existing homes fell to an all-time low. The median price of a new home last month fell by the largest year-over-year level in history. **Good news:** NAR records only go back to 2001. Greenspan said in an interview that the drop in home prices should end "well before" early next year. Other than that, there is no other good news in housing.

**Consumer - Bad news:** The consumer is still 67% of our economic engine. Retail sales are at their lowest level in 5Ys, as consumers cut back. An ABA study finds more people have fallen behind on consumer loans than at any time in nearly 16Ys. Total credit card debt outstanding has been rising since mid 2006. The value of homes minus the mortgages outstanding against them fell below 50% for the first time in history according to the FRB. **Good news:** Businesses make up the other 33% of the economy and their balance sheets appear to be fairly healthy at this point.

**Business - Bad news:** According to SBA data, more than \$1B in 7(a) loans were delinquent as of 12/31/2007, a 48% increase over the prior year-end. So far this year, 24 public companies with assets of nearly \$10B have filed for bankruptcy, 67% more than during the same periods in 2007 and 2006. About 51% of corporate borrowers are rated below investment grade, up from only 28% in 1992. **Good news:** A recent study finds that while nearly as many small business owners feel a recession is

imminent, close to 70% said they believe their businesses will be as profitable as or more profitable in 2008 than in 2007.

Community Banks - Bad news: Community banks are getting painted with the same brush as bigger banks mired in the subprime mess. The average NIM for banks with assets \$100mm to \$1B fell to 3.82% in the 4Q, down from 3.97% from the prior year. Analysts say banks are getting close to earnings levels that will not support current dividend yields due to additional loan losses. Good news: Community banks aren't doing as poorly as their bigger cousins, are much more flexible, have not seen (in most cases) as much equity volatility and CRE so far is continuing to hold up fairly well in most markets.

# BANK NEWS

## **Municipal Problems**

There used to be 30+ banks that could provide a multi-million dollar short-term credit facility to a public entity. Due to the credit crunch, the market is currently down to 4 and pricing has increased 120+bp.

## **Crisis Perspective**

A joint research report from Oliver Wyman and Morgan Stanley indicates current credit market turmoil is the biggest crisis banks have faced in 30Ys. The report indicated bank earnings had already been wiped out for the past 3 quarters and projected the crisis might last for up to 10 more quarters. If correct, that sort of turmoil would far surpass the impact of the Asia currency crisis, the burst of the dot-com bubble, Black Monday and the bailout of Long Term Capital Management. Strikingly, the report also projected another \$75B in writedowns yet to come.

## **Funding**

Analysis shows community bank deposit growth has averaged around 5% annually since 2000.

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