MORE MONEY FOR US (AND FOR YOU)

by Steve Brown

We are happy to announce a change in our Loan Pricing Model that will serve you better. When we say "serve you better," we mean "increase our profits." Since money is always in short supply, our logic is that by coming up with a Loan Pricing Model that works better than anything else, you will buy it, make money and in turn, have more money to blow on things like bonuses and dividends.

As a bankers' bank, we are a business, just like any other business, except that we employ more math majors and programmers (see picture). While these math majors and programmers are really, really dull at ice cream socials, they happen to be pretty good at loan pricing. In addition to increasing the Model's accuracy through a more refined set of algorithms (to take into account current conditions), we now look at a gaggle of loans from across the country to garner our statistics. Totaling more than 3mm, these loans allow us to monitor and calculate the probabilities of defaults and loss given defaults down to an amazingly small area such as a Metropolitan Statistical Area or zip code. That means, most likely, we have quantifiable data right in your home market. In addition to looking at loan performance, we pull every building permit, vacancy report, property sale and rent survey available to bring you the most forward looking view of the market.

Other changes in the Model include the ability to include monthly fee income in the fee structure of a loan, handle immediate construction draws and connect together up to 50 loans within a lending relationship to better understand total account profitability. In addition, we have updated our loan acquisition cost data to better reflect the higher 1Q cost structure at many banks. The model now handles loan renewals and new loans for existing relationships. Once you price a loan, our new and improved model not only will give you return on economic capital, but also calculates your return according to GAAP and regulatory capital. The truth is, our math and programming wizards never see an ice cream social.

Think for a second how you are going to compete on a loan without the pricing model. You wouldn't know that the probability of default is up 35% for the year for loans on industrial property and 21% for office exposure. You wouldn't know that in some markets, the probability of default (and hence loan loss reserves) on a retail center is still low at .27% (like in Southern CA and the Northwest), while in other areas (like most of Ohio) you have over a 1% chance of going into default (and need much higher ALLL). You also wouldn't know that it takes pricing of under 6.55% fixed for 10Ys to win an apartment deal in San Jose, CA (or almost anywhere in NY), yet you could price that same deal at 7.24% in Memphis (or almost anywhere in FL) and still win it, both with a 15% ROE. You would think hotel risk is skyrocketing. It is not, and is the only major category of loans to improve for the year (as of April).

This pricing model is web-enabled, and comes with a very reasonable average cost of $1k per month (based on asset size) for unlimited use. No upfront fees, no maintenance expense and you can cancel at any time after the 3rd month. More importantly, you have access to a desk that does nothing but price, structure, purchases and sell loans all day long.

Given tighter margins and more volatile defaults, the big thumb approach to loan pricing is going to get you in trouble. Banks must know their loan-by-loan return of one of the most important functions within the bank. Help us keep our math wizards away from social functions. If you are not concerned with our bottom line, think of yours - contact us today on the Loan Pricing Model.

BANK NEWS

M&A

Wells Fargo purchases Flatiron Credit in a move to bolster its insurance division. Flatiron specializes in insurance premium financing, a niche that we love because of its consisted return estimated to be 20%+.

ODs

The Fed, OTS and NCUA are expected to release its long-awaited proposal on overdraft practices today.

FINCEN

The agency released a report detailing the increased number of Suspicious Activity Reports from banks. In addition, the report summarizes how suspects are using smaller transfer amounts to avoid detection, using straw buyers and faking documents.