SUMMER TRIPS IN THE STATE OF BANKING

by Steve Brown

Summer is here, the sun is out and kids are outside playing and having fun. Some bankers have already taken an early summer vacation, while others are toiling away in the office. If you are in the office, you are probably looking for something interesting to start your day, so hopefully our musings this morning will fit the bill. Summer is also a time of travel, so let's take our own trip and look at some interesting things happening around the banking industry.

Mobile banking is heating up. Last week, Bank of America announced it reached the 1mm mark for mobile users. Even more interesting, 80% of such customers check balances and transaction data, 67% are under 35Ys old, 20% are over 45Ys old, and the average mobile banking customer accesses their account remotely 4.2 times per month. Another interesting finding - 40% of mobile customers used bill pay and transferred funds within the Bank. The numbers will only accelerate in years to come, since experts find nearly 60% of the top 100 banks plan to deploy a mobile banking solution within the next 2Ys.

Housing is still having trouble. The latest data shows housing foreclosures have exceeded the 1mm mark for the first time in history, while nearly 3mm homeowners (6.4%) have missed at least one payment in the past year (another record high). Even in so-called prime mortgages, about 1.2mm are past due (about 3.7% of this type). Overall, the number of people who have lost their homes to foreclosure now sits at the highest level in 30Ys. Prices have fallen so far, that nearly 8.5mm homeowners have negative or no equity in their homes. This number is expected to rise to 12mm (or almost 25% of all homeowners) by the 2Q of next year. This is the lowest level of home equity since 1946.

Employee background checks are booming. Is it any wonder that with 34% of all applications containing outright lies about education and experience that background screening has become a $4B business? A full 96% of executives say their bank conducts background checks on job candidates and about 75% outsource that function. For banks, a pre-employment background screening process can reduce turnover (by verifying employees have the skills required to do the job), discourage theft, deter embezzlement and prevent litigation. FDIC regulations require banks have a risk-based approach to determining background screening, including taking into account increased screening for employees based upon position and responsibilities. The FDIC Act itself specifically prohibits any person who has been convicted of any criminal offense involving dishonesty, breach of trust or money laundering from even working at a bank. We know lots of banks that have done an original background check, but how often do you update yours and on which employees?

Competition remains fierce. Community banks say their top 5 competitors these days are other community banks, credit unions, large banks, internet banks and brokerage firms. To stay on top of what competitors are doing, about 67% of banks track the destination of funds leaving the institution. Interestingly, even after collecting this data, only 48% or so say they respond by modifying their pricing on products and services.

Nonperforming performing loans are back. Banks are seeing a much more aggressive regulatory stance on loan portfolios and documentation. Anticipatory downgrades are happening, extensions are persona non-grata and regulators are looking very closely at how often and how well banks manage their appraisal processes. Banks should increase loan documentation, update appraisals, boost liquidity risk management, enhance concentration risk management, conduct credit stress testing and have better risk controls in place. Regulators also want to see banks improve underlying technology applications so it is easier to effectively measure, monitor and report risk exposures to management and the board of directors.

Whether your summer vacation takes you to some faraway beach in the Barbados or somewhere much closer, be sure to enjoy it. Have fun, read a good book, relax and unwind - all community bankers certainly deserve it.

BANK NEWS

Future Capital

Many large banks are worried about finding themselves undercapitalized due to the confluence of 3 events: 1) asset valuations, 2) the disclosure in 2Q that Basel II capital must be disclosed, and, 3) the new accounting rules that will most likely cause any "controlled" special purpose vehicle (conduit) to come back onto the balance sheet.

Small Business Banking

According to a survey by the Aite Group, community banks have increased their share of the small business market from 23% in 2006 to 30% by the end of 2007. While large banks have held steady, regional banks have lost ground, falling from 30% to 22%. Meanwhile, credit unions increased from 7% to 9%.