WAKEBOARDING AND A BANKING SURVEY

by Steve Brown

Summer is a great time to have fun, catch up on some free time and generally relax. It is also a perfect time to try new things like wakeboarding. That is exactly what we did on a recent trip. The problem came when we eventually become overconfident as we cut back and forth across the water behind the boat. That overconfidence drove us to eventually decide to try something more daring. As we leaned back, stretched the rope to its absolute maximum, whipped back across the wake and launched into the air Ã¢Â€" sanity finally returned. As we felt the wakeboard leave the water, we wondered why we had made this decision.

As with wakeboarding, bankers must make decisions each day on critical issues. Should you worry more about the competition, regulators, growth or profitability? Should you stockpile cash and hope an opportunity to acquire someone will surface or do you continue to run a 100% plus loan-to-deposit ratio and try to maximize income now? Every bank is different, so every bank will probably come back with a different answer.

However, bankers also love peer groups, surveys and studies, so we focus in on a recent survey that listed some of the things weighing on the minds of bankers across the country. These included the usual suspects such as competitors, profitability, growth, loan quality and deposit gathering; but they also included some we found quite interesting and perhaps not as obvious.

For instance, while 14% of bankers surveyed were worried about external fraud, only 1% said they were worried about internal fraud. This, despite extensive research that shows 60% of bank fraud cases are committed by employees, with a median loss of $258,000 per case. Just as worrisome, on average it takes 18 months before a bank detects an internal fraud scheme.

Another key finding of the survey shows 40% of community bankers said they were having difficulty handling the regulatory guidance on CRE concentration risks. While that is probably intuitive given that it is relatively new, it is interesting to note that the survey also found the percentage of banks that say they are having problems handling CRE concentrations is 4x more than those who said they were concerned about identity theft and 3x more than those worried about Sarbanes-Oxley. As this data suggests, regulatory pressure to understand the nuances of risks within the entire loan portfolio have certainly accelerated over the past year or so.

The survey also found the top 3 areas where community bankers are feeling the heaviest regulatory burden are BSA, CRE guidance and the Patriot Act. While that isn't completely surprising, we were a bit shocked to find CRA burdens ranked above customer privacy and the mortgage crisis. In total, nearly 65% of respondents said they were having a more difficult time with regulators this time around than they did at their last exam.

No matter what your issue or how you are preparing to handle it, another one is probably just around the corner. To survive, community bankers should try to remain adaptable and try new things. Community banking can be nearly as fun as wakeboarding, but it is better when you keep your wits about you. As we found out on our recent trip, you might clear the wake and stick your landing on the other side, but if you are a middle aged banker like we are, the odds are probably not very high. As you find yourself in mid-air, screaming aloud and hanging on for dear life, remember this sage advice - it hurts less if you let go of the rope before the boat reaches top speed.

BANK NEWS

IndyMac Cuts

The 2nd largest independent U.S. mortgage lender will cut over 50% of its employees in the next few months, halt new loans and close its forward mortgage business. The action comes after regulators said the lender was not well capitalized. On top of this, IndyMac expects losses for the 2Q to exceed 1Q losses of $184mm.

FRB Survey

The most recent loan officer survey finds banks have not only increased borrowing standards, but are now charging the highest rates on loans since 1990.

CRE - Retail

The next big problem for community banks is coming in retail loans. Already average debt service coverage has fallen below 1.1x on many previously strong properties. Enclosed mall vacancies rose to 6.3% in the 2Q, up over 40bp from the 1Q. For open-air malls, vacancies hit 8.2%, the highest in 13Ys.

FRB & SEC

The FRB and SEC have issued an information sharing agreement on how they will oversee investment banks. The two agencies will jointly monitor anti-money laundering efforts, brokerage activities along with a number of other bank and investment operations, though the details are still unclear.

ING Competition

ING Direct reports they open 100k deposit accounts per month.

Housing Softness

A recent survey finds just 2% of respondents say they will buy a home in the next 6 months. That is the lowest level in 25Ys.

Lender Stress

Since this time last year, more than 100 mortgage lenders have either gone out of business or sold themselves.