

LISTENING THROUGH THE WALL

by [Steve Brown](#)

Have you ever seen someone put their ear up against a glass placed on a wall? Their goal is to hear the conversation on the other side of the wall and they use the glass to help focus the sound. While not as extreme, we listen all the time to bank executives, regulators and at industry gatherings in order to stay on top of things going on in community banking. Here are some of the things we have heard recently that we thought you might find interesting:

- While it is hard to tell from the Fed's Sr. Lender Survey the degree of which banks are tightening their credit standards, we can tell you that it's significant. Many banks report that while their pipelines are up, approvals are down in all sectors. Some say credit is now as tight as it was in the early 90's.
- Bank stocks continue to get whipped around and pressures on some of the publicly traded ones are extreme. Adverse economic trends and industry bad news have helped push some bank stocks below the \$1 mark, exacerbating liquidity pressures and increasing the need for capital.
- Some top economists tell us they think it will take until 2010 to get things back to any semblance of "normal" and perhaps as long as 2011. No matter how you look at things, we have more work to do before we come out of this.
- 2Q nonperforming loans as a percent of loan portfolios have spiked from the 1Q. We'll share the analysis when the quarter-end data is finalized in the next few weeks, but some banks are reporting as much as 10% or more of their loans are on nonaccrual.
- Land acquisition, development and construction lending volumes tripled from 2001 to 2007. Meanwhile, delinquencies in this sector have jumped to levels last seen in the 1990's.
- Home prices fell 7.7% in the 2Q, the largest YOY decline since 1982. While prices continue to fall across the country, the hardest hit area has been the West, with prices off nearly 18% YOY. Across the country, about 25% of homes sold in the past year lost money on the transaction. In CA, more than 75% of homes have sold for a loss. Projections show prices will continue to fall through at least mid-2009. Credit for single family residential home loans has tightened up so much that only 10% of loans originated in CA in 2008 are for jumbo loans.
- Showing the disconnect between fantasy and reality, a recent study finds that while 77% of homes have seen their price fall by double digits, 62% of homeowners believe the value of their home had increased over the prior year.
- Bankers tell us the average loan they have to put through the foreclosure process costs them about \$50k all-in.
- Notices of default for community bank construction and housing loans are 53% higher than the same period last year.
- Branch traffic drops an average of 5% to 10% when remote capture is rolled out in the area. Given its early stage of adoption, RDC could reduce traffic by 20% over time.

- Regulators are taking a much closer look at loan portfolios, requiring community banks to write down loans, increase reserves and report credit stress results to the board. More than a few bankers have told us they have had at least 2 loans get downgraded 2 levels during their last examination.
- Bankers without a good analysis of their borrower contingent liabilities, updated cashflows and updated appraisals in areas where markets have deteriorated can expect significantly increased regulatory scrutiny.
- The unemployment rate is expected to rise to a 5Y high of 6.0% in the next few quarters, up from 5.7%.
- About half of small businesses are satisfied with the level of customer service, online banking capabilities and support provided by their primary bank.
- About 20% of bank customers paid an overdraft fee in the past year.
- Turnover rates for full-time tellers are about 33%, while part-time teller turnover rates run as high as 53%.

We'll keep listening and please keep the information coming. If you know something and want to share it with us, please don't hesitate to email us directly. In the meantime, we'll keep our glass to the wall.

BANK NEWS

Lehman Brothers

Rumors swirl that the Korea Development Bank will make a bid for the beleaguered investment bank over the weekend.

Credit Unions

In the 1st half of 2008, deposits grew 3.3% faster than loans at Federal CUs. 1st mortgage loans rose 10.1%, though loan delinquency ratios grew 4bp to 0.97% with net charge-offs rising 20bp to 0.71%.

Computer Crash

After a core computer system meltdown last Sunday, HSBC is still having trouble processing and posting customer transactions to accounts. Many customers are unable to withdrawal cash or make payments, as account balances have not been updated and cannot be verified. To alleviate business disruptions, HSBC is manually conducting certain transactions at call centers and branches.

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