

## SOME ASSEMBLY REQUIRED

by [Steve Brown](#)

You may not know it, but the Statue of Liberty was shipped to the US in 350 pieces back in 1885. We don't know how long it may have taken to assemble it, but we are pretty sure it took quite awhile. Fast-forward to 2008 where the US Government is giving out TARP money in buckets in an effort to stabilize the financial system. People are complaining about how slow things seem to be going and taxpayers are frustrated with the progress. Now, we don't know if there were complainers back in 1885, when Lady Liberty was lying around in pieces (waiting for another ship to come in to port with piece #284), but we are pretty sure there must have been. People want to see progress immediately, but stabilizing a highly complex financial system and redistributing TARP back into loans takes time. In addition, major changes have forever impacted the banking landscape (making things even more difficult).

Let's reflect on a few recent events. Consider for a moment, the single deal done between PNC Financial (PA) and National City (OH). While these are big banks, they pale in comparison to the Bank of America/Merrill Lynch, JPMorgan/Washington Mutual, US Treasury/FNMA/FHLMC transactions and many others. Yet, despite the fact that the PNC deal will close on December 31 of this year, full integration won't happen for an estimated 2Ys beyond that. We bring this up to demonstrate the sheer size of the issue when we take that single transaction, multiply it by 25 or 50 more just like it and then we begin to see the hundreds of pieces strewn all over the financial lawn ahead of us.

We cannot know the impact of all the changes that have occurred in rapid succession on the financial landscape, but we do know they have been industry changing. We just hope the FRB and Treasury have numbered the pieces, as they have worked to redesign things, so we can rebuild it all at some point.

For community bankers, in particular, we see some early pieces being offloaded onto the dock that could increase prospects and profitability in the coming months and quarters. Opportunities abound given all the turmoil and some could not have been imagined just a few short years ago when competition was running high. Some banks are strained (providing M&A opportunities), some competitors have disappeared (Wachovia and WAMU on deposits, Merrill on cash management, etc.) and some large banks have even pulled away entirely from various sectors such as small business (giving community banks room to price new loans at much wider spreads). Certainly, stresses throughout the industry are high (deposit pricing isn't moving fast enough to save margins, bank credit lines have been cut by upstream correspondents and borrower credit quality remains spotty), but we prefer to be positive thinkers.

Therefore, as we prepare for 2009, we see that while the financial pieces stretch to the horizon, this is merely a puzzle for us all to solve. Some days we may easily assemble the pieces, while other days will not be so smooth or straightforward. One thing we know for sure, however, is that community bankers with persistence, patience and a never-ending desire to achieve will find success in 2009. We are talking about community bankers here, so we wouldn't expect anything less.

## BANK NEWS

**CRE**

Credit stress results on a representative sample of community bank CRE loans across the country show defaults are predicted to triple if income from office, retail and apartment buildings falls by 5% or more.

### **FHLB, Boston**

Due to portfolio losses, Boston becomes the latest FHLB system bank to cut its dividend, institute a moratorium on buying back excess capital stock and increase pricing on their advances in an effort to preserve capital.

### **A Bigger & Better Bite**

Banks under \$1B in assets now account for 13% of all US loans and over 33% of loans under \$1mm in size.

### **Mod Defaults**

According to the OTS and OCC, approximately 55% of home loans modified in the 1Q were 30 or more days delinquent and over 35% were 60 or more days delinquent after just 6 months. Looking from a more positive perspective, 90% of all mortgages are still current.

### **Loan Hope**

Hope Now Alliance (which includes BofA, Citigroup, Fannie, Freddie and JPM) intends to double the number of modifications next year to approximately 2mm. The group estimates that 2.2mm foreclosures have been averted this year through assistance from the program.

### **Projected Weakness**

A survey of blue-chip economists' projects consumer spending will fall 1% in 2009, the biggest contraction since 1942. Meanwhile, GDP is expected to contract for 4 straight quarters, the longest contraction since quarterly records were tracked beginning in 1947.

### **Small Business Concern**

A survey of small business owners finds 82% have been impacted by the financial crisis, 60% felt their company would continue to be negatively impacted next year and the group as a whole expects it will take nearly 2.5Ys for the economy to turn around.

### **Small Biz**

Studies find the most difficult growth issues for small businesses are delivering more products or services (40%), finding qualified staff (25%), raising capital (25%) and managing IT (11%).

*Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.*