

## INTERESTING FACTS & A COMMUNITY BANK SURVEY

by [Steve Brown](#)

As you wait for your coffee to kick into gear this morning and stare at the pencil in your hand, know that its lead could draw a line 35 miles long. We'll give you another interesting fact at the end of this section, but first we take time to review portions of a survey of community bankers recently completed by the Federal Reserve Bank.

We begin by focusing in on the groups community bankers named as their hottest competition when it comes to gathering deposits. The top 5 that made the list were other community banks (68%), credit unions (46%), large in-state banks (40%), mutual funds (34%) and securities firms (33%). If that is indeed the case, why is it that most banks don't even track rates paid by mutual funds or securities firms and they largely ignore those paid by larger banks (as simply too low). Most community bankers we know use a deposit pricing service that surveys the general area and presents back the top rates paid by various major deposit categories. Then, management sits around in a bubble, discusses why so-and-so is so nuts with their high rates and then ends up picking the median (plus 5bp or so). Maybe this process should be reconsidered to incorporate rates from all of the top 5 competitors to get a better picture.

Next, we zero in on loan competitors named in the top echelon by community bankers. These included other community banks (65%), large in-state banking organizations (55%), credit unions, (48%), credit card marketers (47%) and mortgage companies (39%). Of equal interest, nearly half of all community banks said their small business lending had increased in the past 5Ys. Those banks that saw an increase attributed it to an increase in the number of new small businesses that opened in the area (52%), a change in the bank's lending strategy (47%) and new lending technologies (14%). Banks have increased their usage of credit scores, running them on the business and business owner(s), as well as monitored company credit histories. Clearly, technology is playing an increased role, but the meat-and-potatoes of lending to small businesses remains grounded in more fundamental analysis and knowing the borrower personally.

Finally, we close our discussion this morning with a review of what items community bankers cited as future challenges. It comes as no surprise to us that maintaining and attracting new deposits ranked #1 at 62%, but it was closely followed by developing noninterest income sources (61%), capturing new business customers (60%), achieving satisfactory loan growth (48%) and maintaining satisfactory earnings (46%). What stunned us about this survey (came out in December 2008) was that maintaining credit quality was down the list, cited by only 25% of community bankers. Given the extreme economic environment, we would have expected it to rank higher.

No matter what section of this competitive survey you focus on above, it is clear things are not getting any easier in community banking. The good news in all of this again comes from community bankers themselves. When asked what percentage was ready to throw in the towel and sell out to another bank, only 5% stepped up to the line. This only reminds us what a tough group we are talking about. Our final interesting fact - plain vanilla ice cream is the #1 selling flavor at ice cream store Baskin Robbins (accounting for 25% of all sales).

# BANK NEWS

## **BofA**

Bank of America has posted its first quarterly loss in 17Ys and slashed its dividend to 1 cent, amid ongoing credit losses. Meanwhile, the Gov't agreed to invest \$20B and guarantee \$118B of assets to keep the Merrill deal on track.

## **Citi**

Citigroup lost 2x as much as expected during the 4Q and said it would split into 2 companies, as it tries to rebuild. The company plans to sell its Smith Barney brokerage, consumer lending and life insurance units.

## **M&A**

New England Bancshares (\$540mm, CT) will purchase Apple Valley Bank & Trust (\$85mm, CT) for approx. \$7.3mm or 1.19x book. Combined, the holding company will operate 15 branches and \$469mm in deposits.

## **JPMorgan**

The bank managed a 4Q profit of \$702mm, down 76% from a year prior amidst \$2.8B in losses including \$2.9B markdown on leveraged loans and mortgages. Wamu, which the firm purchased in Sep., brought in a \$1.1B gain. For all of 2008, the company registered a net profit of \$5.6B.

## **Commercial Construction**

Harvard economists' project commercial construction will decline as much as 12% in 2009, as weakness in the sector increases.

## **Deeper Underwater**

Moody's is projecting a 10% drop in home prices in 2009 will bring the total number of homeowners who are underwater on their mortgage to 15mm.

## **2008 Foreclosures**

According to a RealtyTrac report, filings jumped to nearly 32mm or 1/54 households in the past year, an 81% rise over 2007. NV, FL and AZ received the highest rates of foreclosures and CA received the largest total.

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