FROM OUR EMC CONFERENCE

by Steve Brown

Right now, we are at our annual Executive Management Conference (EMC), educating hundreds of bankers from all over the country. Speakers are covering a diverse set of subjects, conversation is lively and discussions between bankers have been fruitful. Community bankers seem to be enjoying the atmosphere and camaraderie, in addition to be working together to solve key issues during this troublesome period of time.

Sessions so far have included a bank simulation (during the pre-conference) that helped bankers test a variety of scenarios on their institution from lending activity, to pricing deposits and even raising capital. This dynamic model helped bankers understand how strategy and tactics can affect a variety of factors in a bank and can sometimes work against stated goals. We congratulate the winners, who turned a troubled institution around and posted an 18.7% ROE (plus other impressive metrics) for their bank.

The first day we also heard from multiple speakers about the new banking landscape, the economic situation, a regulatory panel of experts, a consumer market researcher, key drivers of profitability, protecting and growing core deposits and took the pulse of attendees (plus matched them up with over 600 responses we received previously) to gain insight into what community bankers were thinking through some really nifty "audience response" technology. In all, the day was chock-full of great facts, figures, input and analysis.

For those of you who could not attend, we felt the need to share some of the information provided and discussed at the conference, since industry events dictate that we all work together to solve some of these key issues.

Starting with perspective, we discussed the fact that the US Gov't now controls 20% of the entire banking system. Given that inject of capital, we can surmise that more regulatory pressure is coming. After all, when taken in context, if you had a shareholder at your own bank with a sizable investment, you can be sure they would ask questions, want to know more about how the bank was being run and ask that you focus on protecting the franchise. Some things just make common sense, so as much as we don't think the extra regulation will do much to improve an already heavily regulated industry (and may harm it over the long-term), we understand why things are heading this way.

The regulatory panel was asked questions from the audience and as you can imagine, those focused into general buckets of loans/ALLL, capital, funding and other. Regulators focused right in on stress testing, urging bankers to stress everything from capital to liquidity. They warned that CRE was weakening quickly and said banks should get an in-depth handle on existing credits, exposures and problems without delay. In one sobering statistic they shared, regulators projected 50% of banks could end up a CAMELS 3, 4 or 5 given market pressures and indicated 40% of banks in the 12th Federal Reserve District did not make money in 2008 (compared to 27% peak in the 1990's). Clearly pressures on the industry remain, as regulators indicated property values in CRE could fall another 25% to 50%, as they were already seeing more businesses renegotiate rents (decreasing cash flow and debt service coverage). In addition, regulators warned bankers to revisit dividend policies and hinted that paying out less going forward might be a sound strategy as capital remains precious.

For those of you reading this - know that we missed seeing you at our conference this year in San Francisco, but hope to see you next year. We'll continue to provide more information on conference speakers and banker discussions in coming days to keep those who could not make it informed as well.

BIG METRICS

1Q data is available for users of our BIG Metrics product to monitor industry trends, compare to peers, utilize interactive calculators or analyze strengths and weaknesses.

BANK NEWS

Lender's Survey

The Fed's quarterly lender's survey showed that 40% of banks tightened their lending standards last quarter, down from 65% from 4Q. The slowing change reflects the fact that a majority of banks believe they have tightened lending standards sufficiently to reflect the changes in risk. 65% of banks particularly tightened commercial loan standards, while 50% tightened consumer loans and 60% tightened credit card underwriting.

Stress Test

While it is a new number every day, the latest rumor is that 10 of the 19 large banks that underwent the credit stress test will need capital. In addition, findings will further highlight troubles in CRE.

Check Consolidation

Items processing at the Seattle branch of the SF Fed and the Denver Fed will be transferred to Los Angeles (part of Denver's items will also go to Dallas).