EARLY FEEDBACK

by Steve Brown

The WSJ recently reported that the primary cause of airline crashes is due to the pilot's improper reaction to the stall speed warning system on the aircraft. An aircraft ceases to fly, or "stalls," when speed and airflow of the wing fail to provide lift. It turns out that pilots often don't react in time or don't react in the correct manner to prevent stalls.

The stall indicator is just one of the many instruments that give the pilot a feedback mechanism to improve performance. We bring this up because in analyzing 1Q financial performance at banks across the country, we noted some trends at many banks that might serve to improve performance at your institution.

For illustrative purposes, we analyzed all the banks that attended our recent Executive Management Conference (EMC). We computed some key ratios and tracked the performance of this group relative to all the banks in the country with assets between $500mm -$1B. Interestingly enough, we found that the EMC banks have outperformed other banks in their peer group by producing a 5% or greater ROE and ROA. More importantly, these banks have done this while decreasing risk.

Looking more closely at the numbers, one can see that some of the cause for this outperformance is a result of deleveraging. As you may know from recent BID articles, we have been encouraging community banks to strategically deleverage the balance sheet. From our analysis, we saw that during 1Q the EMC bank group did just that in regards to both capital and deposit leveraging. Not only did they succeed in implementing these strategies, but they did so at a rate that outpaced the trend of the other banks in their similar asset band. Shedding or slowing asset growth allowed these EMC banks to run off higher cost liabilities and improve margins. This has resulted in more stable earnings and allowed these EMC banks to increase ALLL at a faster rate than their peers.

Another performance trend that bankers can draw from 1Q data can be demonstrated with EMC banks as well. During 1Q, EMC banks increased their ratio of non-interest income to assets to pull out a positive spread of 3.78% relative to the peer group. Most banks did this by increasing their service charges on checking accounts during 1Q while the peer group experienced a sharp decline in this metric. This helped boost valuable fee income, adding to earnings.

It would be naive to say that simply monitoring ratios and trends is enough to improve bank performance. However, actively monitoring those trends and implementing strategies over time will result in visible improvements in bank performance. As is the case in flying, warning indicators are useful only if we are paying attention and know how to respond when warned.

If you are a BIG Metrics user, check out how your bank preformed in 1Q versus any chosen peer group and compare your strengths and opportunities. We developed this system to not only give banks a set of early warning indicators, but to also highlight what top performing banks are doing right each quarter.

If you are not a User, be sure to review more details on how EMC banks performed to the general industry as it might give you further insight on early warning signs or opportunities. It is free and no log-in is required. You can find it under the Sample Dashboards section (bottom right) at https://biganalytics.bancinvestment.com.

BANK NEWS

TLGP

The FDIC posted additional guidance on the Temporary Liquidity Guarantee Program that educates the public on the process for collecting claims under the program. Details are at: http://www.fdic.gov/regulations/resources/TLGP/payment_process.html

Still Ugly

Toyota reported a $7.7B fiscal 4Q loss, its first annual loss in 59Ys - its largest in history and one of the biggest ever reported in Japan by a business.

Sluggish Growth Projected

A panel of blue chip Wall Street economists' projects the economy will only grow at 2.0% to 2.5% when recovery finally comes and that the slow pace will last for years (due to deleveraging). That unimpressive growth rate is about 67% slower than the country was growing before the crisis and about the pace seen from the late 1970s through the early 1980s.

The Cost of Failure

The Office of Management and Budget projects bank failures to cost $91B through the end of 2010, compared to the $65B estimated by the FDIC through 2013. Keeping things in perspective, the OMB estimated a loss of $1.1B for 2004, though actual losses amounted to less than $200mm.

Generational Gaps

According to a survey by the Center for Financial Services Innovations, of those age 18-24Y (or Generation Y) only 33% have a checking account, 14% used direct deposit and 17% would turn first to banks for a loan less than $1,000, compared to over 50%, 33% and 39%, respectively, for those 25Y and older.

Promotion

Anecdotal evidence suggest that giving away GPS units for qualifying checking accounts (minimum balance, direct deposit and debit card) seems to be effective.