LUNCH, SNOOPY AND THE BANKING INDUSTRY

by Steve Brown

To win yourself some lunch, go around your bank today and ask your coworkers if they can guess the name of the 5th largest bank in the country. After about the 10th guess, offer to give them a hint, go double or nothing and tell them it has something to do with Snoopy. Believe it or not, the most recent list of bank and thrift holding companies (based on assets) from American Banker shows MetLife is now the 5th largest bank in the country. MetLife - most probably don't even know MetLife is a bank, let alone one that large. If that doesn't get your attention this morning, consider that included in the Top 10 list are 3 foreign-owned entities (HSBC Holdings, Deutsche and Barclays) and that total assets for JPMorgan in the #1 slot (at $2.2T) are about 10x as large as those of US Bank in the #10 position ($267B). Closing out the pack ahead of MetLife in the Top 5, but behind JPMorgan in order by asset size are Citigroup, Bank of America and Wells Fargo.

We highlight this not only because we like Snoopy, but also because this shows how the industry has changed significantly over the past few years. More changes are coming, regulatory pressures are everywhere and community bankers are adapting to all of this as rapidly as possible. Perhaps at no other time in history has the financial landscape changed so dramatically in so short period of time. It is clear that fallout from the ongoing financial turmoil, spreading industry-wide credit problems and contracting net income have forced bankers to revisit the very core of the business model, refine the approach and do all of this while surviving the worst economic storm in about 75Ys.

We have seen these pressures on the financial sector lead to a corresponding pullback in investor risk-taking, which has reduced capital options as well. While we were recently heartened by the fact that multiple private equity firms have shown up in FL, CA and NY lately, this forces yet even more business model refinements community bankers will need to analyze and begin to prepare for. The industry is going through a significant evolutionary process, we are likely to soon see a major regulatory consolidation and this is all occurring in the midst of ongoing industry pressures.

For the rest of this year and probably into the first half of next year at least, community bankers will face a period of cautious extensions of credit, higher credit losses, straining capital levels, more reliance on core deposits, less reliance on wholesale funding, lower overall customer borrowing demand and lower bank profitability (as loan loss reserves and charge offs also rise). It also appears we are going to be in the midst of this fight for some time to come, so facing issues directly as you move the stick to adjust direction are both going to be critical to ensure your bank reaches the next landing area safely.

Now is also the time for community bankers to be the captain of their own ship. Large banks are heavily distracted right now, working on merger assimilation, attacking consumer exposures and raising capital. Community bankers with solid balance sheets are very well positioned to lock in new clients, improve profitability and take advantage of the environment. Increasing loan spreads, charging higher loan premiums, demanding primary deposit relationships before credit is extended, lowering credit limits, strengthening covenants, reducing hold amounts, eliminating unused commitments and extending loan maturities to stabilize cashflow are all critical elements of any good plan.

We are certainly going to see an ongoing rise in nonperforming loans in the months to come, which will require even more loss provisioning and weigh on profitability. Times are tough and the industry is changing radically, but community bankers are prepared and they certainly know how to fly their own blimp.

BANK NEWS

M&A

Carolina Trust Bank ($172mm, NC) has entered an agreement to purchase Carolina Commerce bank ($103.5mm, NC) for an estimated $5.5mm. Combined, the bank will service $220.8mm in deposits and $218.3mm in loans.

Legacy Sells

The FDIC put the planned pilot Legacy Loan Program (LLP) on hold, citing that it may not be needed. It may be more due to the fact that banks are not interested in selling loans at deep discounts (erodes capital too much) or because of the complexity of the sales market mechanism.

Partial Repayment

Valley National Bank ($14B, NJ) becomes the first bank to partially repay TARP, as they paid off 25% of it this week.

Mortgages

Home loans over 60 days past due rose for a 9th consecutive quarter in Mar to 5.22%. This was a 14% increase from the 4Q and more than 50% higher from the same period a year prior. NV and FL posted the highest delinquency rates, at 11.6% and 11.0%, respectively.

More PE

A story is making the rounds that Colony Capital and Related Co's may be looking to purchase the assets of Corus Bancshares ($7.6B, IL) out of receivership or outright. Corus had considerable condo lending exposure and has been under significant regulatory pressure to raise capital.

Text

A recent study by Mercator Advisory reports text messaging is an effective method to reach delinquent borrowers. Responses increased by 13% over other methods.

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