HOW ARE YOU DOING?

by Steve Brown

In today's banking landscape, comparing your bank to peers is important. While we are more from the Vince Lombardi School of banking that says you should execute on your strategy and competition be damned; gaining information from your peers is particularly helpful these days, as no bank is an island. Potential investors, analysts, other banks, board members, employees and regulators most likely look at your bank against a peer group, so why shouldn't you? The answer is that finding accessible and easy-to-use peer data can be a challenge.

It is true that peer data is available in a number of places like the FDIC Institution directory or through the UBPR information on the FFEIC site. So what's the problem you ask? The problem is that while the data is there, it is not information. Data must be assimilated and presented in a usable form in order to draw conclusions. Only then is the data actionable.

The first step is creating the right peer group. This step is where many sources of data fall down. Peers should be picked that are similar to you in orientation and equal to or better than you in performance. Creating a peer group of local banks, banks that started the same time you did or banks that are the same size, may not be who you want to pick as your peers. Rather, creating a peer group of banks that produced over a 10% ROE last quarter, that are in your state and relatively the same total asset size, might be a better comparison. Then again, some banks utilize multiple peer groups in order to give a more complete picture.

Once a peer group is created, the important metrics these days are really about asset quality, liquidity, capital, funding, profitability and margins in that order. Getting a general idea of how you stack up in these areas each quarter is mandatory. By comparing performance, peer group analysis can point you in the right direction to highlight strengths and challenges. If margins are smaller, for example, it is important to know whether it is due to a difference in asset quality, loan pricing, cost of funds or overhead costs. Having the ability to drill down in peer reports is important as a good system will uncover this information to save bankers the time and effort.

We have created our BIG Metrics application not because it is yet another product to sell, but because most available sources of peer group information were either lacking in: data, the ability to draw conclusions, flexibility or were too expensive. BIG Metrics is an easy, interactive peer analysis tool that can help a manager understand whether current changes in peers are part of an industry trend or an outlier bank pursuing a different path.

BIG Metrics is also part of a larger set of analysis tools, we offer community banks. Our Liability Coach is designed to help bankers with funding, CSA/ALLL for credit, Loan Pricing Model for loan decisioning and Relationship Profitability/Dashboards for performance measurement. These are all examples of areas where we can help banks both from a big picture standpoint and a very granular level.

If you already subscribe to another peer group application, you should compare our capabilities in order to save money and gain information quicker (BIG Metrics is among the fastest sites to post quarterly information). If you don't yet subscribe to a peer system, the cost of BIG Metrics is well worth it and the actionable information robust enough to give bankers a significant advantage in improving performance.

We are giving a presentation and live demo on BIG Metrics next week, so click below to register (or email for a free trial). https://bigevents.webex.com/bigevents/onstage/g.php?t=a&d=804029413

BANK NEWS

CA IOUs

Regulators issued guidance indicating the capital treatment for the CA warrants have the same credit quality characteristics as the State's general obligations and as such should receive a 20% capital risk weight.

CRE Troubles

According to Real Capital Analytics, CRE valued at more than $108B (5,315 buildings) in the US are now in default, foreclosure or bankruptcy (nearly double the figures from the start of 2009).

PPIP

The Treasury named 9 managers to operate the Public Private Investment Program. The Program looks to purchase up to $40B in toxic securities backed by CRE and residential mortgages. Unfortunately for community banks, PPIP in its present form is only set up to take securities and not loans.

Tighter Lending

Banks have tightened credit to small businesses for the 10th consecutive quarter as of 2Q.

BID Correction

While the dollar figures were correct in yesterday's 6-month CD calculation, the total compounded annual return was overstated and should be a little over 5% with a 4.50% average. For interested banks, let us know and we will get the info out to you.