2Q DATA AND THE DOG DAYS OF SUMMER

by Steve Brown

Are you a dog person or a cat person? There are stereotypical traits of each, and here at BIG, we are primarily dog people. With dogs we share being friendly, loyal, focused, protective, generally good natured and enthusiastic for the task at hand. If we had to identify with a breed, it would be a retriever - labs and goldens particularly. For one thing, we are always getting stuff and bringing it back to client banks.

Our current task is getting the 2Q FDIC Call Report data to the subscribers of BIG Metrics, our online peer analysis tool, as soon as possible. While we are dutifully and continuously retrieving this data, our approach is slightly more nuanced than the average golden retriever. Banks had to file their information with the FDIC for 2Q by July 31. The FDIC does not put this data out for public consumption until generally a month later. For subscribers of BIG Metrics, typically this information populates our database at the end of the first week following that deadline. This gives bankers a leg up on the competition and keeps management ahead of trends and peer group comparisons weeks before it is available to others.

In a review of 2Q data (99% of banks reporting), here are some items that stand out (we will go into more detail next week): ROE came in around 0.3% for all banks, with community banks in the $300mm to $500mm total asset range performing the best (3.2%) and banks in the $1B to $3B range performing the worst (-5.2%). Regarding lower earnings, in addition to the FDIC special assessment and credit quality, banks deleveraged and brought their loan-to-deposit ratios down to approximately 51% (due to the shrinking of large regional banks). For community banks, loans-to-deposits went from around 90% to 80%.

While the overall composition of deposits nationwide has remained roughly the same as we saw in Q1, there has been an overall increase in the quantity of time deposits with longer maturities (especially when one looks at the trend over 5 quarters). This has driven up the cost of funds from 1Q and has made banks more liability sensitive. This seems contrary to sustained Fed Funds, which most pundits think will remain at 0.25% for some time, but the action is consistent with a steepening yield curve. In addition, while deposit rates have increased slightly, so have loan yield, so net interest margins have improved back above the 4% range for the first time in 5+ quarters.

Banks have increased their total risk-based capital in the past two quarters due to taking on more capital and delveraging. While the increase in charge offs relative to loans appears to have increased in the past quarter, it is at a slightly slower rate than previous quarters. Oddly and sadly, due to higher levels of write offs, ALLL has decreased for the first time in the past 7 quarters. However, this trend is largely due to the influence of larger banks, so the average community bank below $3B increased ALLL slightly to just below 2.0%.

Overall, it continues to be a very challenging environment for banks everywhere, but there does appear to be some improvement. Want to know more about 2Q? While we will release more info next week, for all the details, sign up for our Webex next Tuesday at 11am PT/2pm ET. To register go:

https://bigevents.webex.com/bigevents/onstage/g.php?t=a&d=801388099

BANK NEWS

M&A

Arvest Bank ($10.8B, AR) has agreed to purchase Harrington West Financial's ($1.12B, CA) Harrington Bank for a $4.1mm premium. Arvest will acquire $94mm in assets, 2 branches and $93mm in deposits.

Deposit Insurance

While the recently-enacted law extended until Dec. 31, 2013 standard maximum deposit insurance limits of $250k, regulators say they won't be changing UBPR definitions of core deposits as a result (currently at $100k). Reasons cited: that is only a starting point, examiners are using more analytical rigor in assessing relative stability of funding sources, updating the definition could place undue emphasis on such measures and lead to unjustified over reliance on UBPR ratios.

FNMA

How the world has changed - FNMA's 2Q earnings loss didn't even rank on the front page of most news internet sites. They posted a $15B loss (down from a $2.3B loss) and it looks like they will need another $10B to shore up loan losses. The good news - performance was in-line with estimates, something that hasn't happened for more than a year.

John Hughes

We will miss one of our movie favorites. He highlighted class struggles and teen insecurities perfectly against a back drop of subversiveness. We still quote 16 Candles, Weird Science, Vacation, Breakfast Club, Home Alone and our favorite, Ferris Bueller's Day Off religiously.