2Q BANK PERFORMANCE

by Steve Brown

Last Friday we reviewed the high and lows of 2Q data (with 99% of the banks compiled). We covered ROE, net interest margin, leverage, ALLL and capital. Today we expand on a couple of these categories in order to place bank performance in perspective.

First off, as a clarification, we were asked by a half-dozen bankers why we always ignore ROA in favor or ROE. Without a doubt, ROE is our preferred metric for measuring overall performance, since we believe a bank's first obligation is to its shareholders (yet we know opinions differ on this point). In addition, ROE and ROA track together more than 90% of the time so talking about the trends of both is slightly redundant. These days, given equity volatility, they track a little less, but not materially so. However, since the question was asked, ROA performance for 2Q came in at approximately 0.04% for the industry. Banks in the $1B to $5B total asset range fared the worst (-0.54%), while banks $300mm to $500mm performed the best (0.30%). As mentioned on Friday, lower performance was driven by credit quality, the FDIC special assessment and the deleveraging of loans-to-deposits from approximately 90% to 80%.

While most banks embarked on a cost cutting effort for 2Q, many of the savings have not yet materialized because of the inherent lag. As a result, the efficiency ratio at all banks held steady at 60.4%. That said, it is notable that banks above $3B in total assets did make a material positive improvement in cutting cost and was one of the only total asset cohorts to improve efficiency from 64.0% to 60.0%.

The key story in the industry is of course, credit quality. Non-current loans as a percent of total loans rose from 3.3% to 3.6%. Banks below $500mm in total assets did the best (3.0%) and the good news is that the rate of growth of losses is slowing for most banks with the exception of the banks between $3B and $5B in total assets. As a percent of capital and reserves, loan problems remained stable for the industry at approximately 22%, however while banks below $1B improved, larger banks did not. ALLL as a percent of non-current loans unfortunately further decreased from 68.6% to 54.3%.

In terms of loan pricing, while banks had a slight rise in their cost of funds, banks were able to demand greater loan pricing, thereby helping net interest margin. Here, larger banks did the best and took advantage of the demand for fixed rate loans and increased loan pricing by almost 1.00%. Banks above $3B in total assets were able to average above 7.00% yield on loans for the first time in more than a year. For the industry, loan pricing increased about 0.50%, with the average community bank increasing its pricing on the loan portfolio by 0.10% from 1Q to 2Q. In addition to originating more fixed rate loans (and we hope hedging), the use of floors has increased for most every bank category we observed. For 2Q, the average floor for community banks was set at approximately 6.40%.

We know we are leaving out some key metrics, but space is limited. To learn more about 2Q performance be sure to sign up for our 2Q Briefing webinar coming up tomorrow at 11am PT/2pm ET. To register go:

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

BANK NEWS

Bank Failure #70 & #71

First State Bank ($463mm, FL) and Community National Bank of Sarasota County ($97mm, FL) were closed Friday. Stearns Bank entered into a loss-share agreement on $364mm of First State's assets, purchased $451mm in assets and assumed all deposits (excluding $8mm in brokered). In addition, Stearns has also agreed to a loss share transaction of essentially all of Community National's $94mm in assets and to assume all deposits.

FHLB Seattle

The Bank reported $16.2mm loss for the first quarter and capital levels below regulatory requirements.

Municipal Stress

A new study finds state tax revenues fell 12% in the 1Q, the largest decline in 46Ys. Meanwhile, revenues from personal income tax fell 18%, sales taxes fell 8% and corporate income tax dropped 19%.

OD Fees

Data from Moebs Services is making the press that banks collected $38B in overdraft fees for 2009. Look for Congress to overreact to the data.

Consumer Credit

Credit to consumers decreased for the 3rd straight quarterly time and fell 5.2%. Revolving credit fell the most at 8.2%, while non-revolving lines decreased 3.5%.

OCC On Consumer Protection

The OCC released updated consumer protection procedures for examination that cover a wide variety of consumer banking areas. To get the handbook, go: http://www.occ.treas.gov/handbook/other.pdf .