CAPITAL IS KING

by Steve Brown

There is no doubt right now that capital is king. Ask any banker and you will hear them say "I would give my kingdom for a little more capital." While it is true that capital is king, we have seen anecdotal evidence in the past 30 days that may show the trickle of capital from outside investors so far this year may soon become a flood.

Before you go jumping up and down, however, cheering the fact your moat may soon be full of water again, let's take a look at some recent bank offerings to see if we can get a flavor of why type of equity banks have been raising.

Through Sep 21, SNL Financial reports about $190B in capital has been raised in the banking sector YTD. By category, about 43% was common equity, 26% was preferred, 16% was senior debt, 1% was subordinated debt and 15% was issued in trust preferred securities. That is the overview and is great to know, but to uncover where community banks are raising capital we need to go deeper. Based on the data, here are the most common ways community banks have raised capital this year:

Common Equity: By far, on a year to date basis, common equity stood up to its name and was the most common way to raise equity. As of this point, 129 issues were closed by a total of 99 different banks (multiple issues occurred with the same bank). After excluding larger banks (BofA, Citi, JP, Key, etc.), there were about 64 remaining banks that we would consider to be community banks. As a total, this group of community banks issued 75 times for a total of $2.993B in aggregate (about 3.7% of the overall amount issued for the category).

Preferred Equity: On a year to date basis, 28 different issues were closed by a total of 18 different banks. Excluding the larger banks again, there were about 13 remaining banks that we would consider to be community banks. As a total, community banks issued 22 times for a total of $705mm in aggregate (about 1.4% of the overall amount issued for the category).

Subordinated Debt: For this category, there were 14 total issues YTD, representing 10 different banks. Again, excluding larger banks, about 9 community banks used sub debt to raise capital. In total, community banks issued 11x for a total of about $89mm (about 27.8% of the amount issued in this category).

Senior Debt: On the senior debt issuance side of things, there were a total of 35 issues from 15 different banks. This one was a favorite of the larger banks, with such notables as BofA, Citi, JP, PNC, Wells and others all issuing. Excluding the larger banks, however, there were only 2 community banks for a total aggregate amount of about $27mm (about 0.01% of the overall amount issued in this category).

TRUPs: We know what you are thinking - given the volume, are trust preferred securities making a comeback? The short answer is not for community banks. In this category there were a total of 11 issues from 7 different banks. While 2 community banks were able to issue trust preferred (probably to existing), the total amount raised was only about $24mm in aggregate (about 0.01% of the overall amount issued in this category).

We can tell you that no matter how you raise capital, the good news is that private equity firms are standing just on the other side of the drawbridge. Let it down and get ready for riders to come across and into the castle over the next few quarters.

BANK NEWS

CU M&A

Vantage Credit Union ($628mm, MO) has entered a deal to purchase Spirit of St. Louis Credit Union ($50mm, MO) for an undisclosed sum.

CRE Risk Elevated

Reis is reporting office rents nationwide fell 8.5% in the 3Q, compared to 3Q '08, marking the biggest decline in 14Ys. In addition, the vacancy rate jumped to 16.5%, a 5Y high. CRE vacancy is expected to rise through early 2011, before peaking and eventually starting back down.

Retail Risk Elevated

Reis is reporting vacancies at neighborhood shopping centers climbed to 10.3% in the 3Q, a 17Y high. Meanwhile, vacancies at regional and super-regional malls climbed to 8.6%, the highest level in nearly a decade. Reis projects recovery in retail will not occur until 2012.

C&I Risk Elevate

Analysis by S&P projects defaults on speculative grade (less than BBB) corporate debt and loans will reach 12.5% in the 4Q, before dropping back to 4.5% in the 3Q of next year.

TARP Dividends

As of Aug, 34 institutions that received TARP funds did not to pay quarterly dividends to the Treasury, compared to 19 as of May.

Busted

The FBI and Egyptian authorities have arrested 100 suspects and charged them with the largest cyber-crime in history. Thieves reportedly stole identity data from thousands of victims in the US and sold it to other thieves in Egypt.

Bank Costs

An analysis of bank costs finds branch and back-office staff usually account for more than 75% of the cost of all staffing. Maybe it is time to make a bigger push into RDC and seek to outsource more non-customer facing functions.

Bankruptcy

Consumer bankruptcies soared 41% in Sep. vs. last year and are up 35% YTD (the highest level in 4Ys).