

## THE OLDEST BANK IN THE WORLD

by [Steve Brown](#)

As we sat contemplating our industry's mortality it occurred to us that we didn't know the average age of a US bank. The answer, for you banking trivia buffs out there is 57Ys. This further got us thinking about the oldest current bank in the world and what does it look like today.

The answer to the question is that the oldest surviving bank is Banca Monte dei Paschi di Siena headquartered in Siena, Italy. This bank is 537 years old and was founded in 1472, a full 20Ys before Christopher Columbus set sail.

The Bank, or "il Monte" as it is commonly known today, started after a bank in London failed (due to the fact that it tried to make loans to the poor without interest). Learning from that bank's mistakes, il Monte was opened by 8 wealthy families with the mission statement "to make loans to poor, miserable or needy persons." While that mission hits close to home today, it is also interesting that the first loans recorded on its books carried interest at 7.5%, a rate also suitable for today's market. After reaching a modicum of success, il Monte was granted an updated charter in 1624, which allowed it to expand into commercial loans. This came at a time when Italy's mercantile business was taking off and credit was in demand. Also at that time, the Medici Grand Duke granted depositors guarantees on their money by pledging the income from nearby state owned farm land as collateral. This would become the first deposit insurance.

Today, the Bank is \$313B in size, has 3,100 branches and is 4.6% owned by JP Morgan Chase. While you might think this is a stodgy, Old World bank, it is not. It has just rolled out a floating rate home mortgage with a cap, utilizes Facebook and YouTube, and just launched a green initiative. Like its US counterparts, the Bank struggles with many of the same issues: credit quality, how to effectively cut costs (it is reducing both branches and headcount), how to replace lost fee income and how to increase earnings. In 2008, the Bank took its version of TARP to the tune of \$2.7B and is struggling with government intervention. The Bank's average reported credit spread on its commercial loans is +2.46% above Libor (a little less than Prime). That is about 70bp greater than the spread it enjoys on C&I loans. However, the Bank is focused on growing the C&I portfolio, because of the need to gather less expensive deposits and generate more fees.

Also like its US counterparts, the Bank did a good job at glossing over its credit quality problems in its quarterly report to its shareholders. Non-performing loans are running around 7.1% of its total loan portfolio and its reserves are 95bp. While we wondered what kind of wine the board members were drinking to allow such a low reserve level, we were interested to find out that the Bank adheres to Basel II standards. It publishes its probabilities of default for each sector in true risk-adjusted pricing fashion. While we are not sure about Italian bankruptcy laws and foreclosures, we would still like to get our hands on that Chianti as even after reviewing expected loss rates, it seems the bank needs at least double those reserves.

When it comes to liquidity, we picked up a couple of tricks from this bank. The Bank publishes on a quarterly basis its undrawn loan percentage, as well as a metric called a "counterbalancing amount." The counterbalancing amount is the level of unutilized borrowing capacity from various liquidity sources (including its maximum regulatory allowed level of CD issuance).

As we finish off the year, we can only hope that the 9th generation of Banc Investment Daily writers has a chance to talk about your bank's 500Y old traditions. Until then, we at least take comfort in the fact Monte's management hasn't seen this type of economic crisis since the late 1700's.

## **BANK NEWS**

### **Checking**

In a recent study, consumers paid more for fees and overdraft charges on checking accounts than on prepaid cards. This trend may be extended with the federal overdraft rule taking effect in about 6 months and monthly fees or billing fees are added to checking accounts to subsidize for loss revenue. However, the inverse may just well occur, as prepaid cards may lose customers to banks, if free checking continues and costs to consumers fall below prepaid card fees.

### **Wamu**

The bankrupt holding company asked a federal court to compel the Fed and Treasury to turn over documents relating to its collapse in 2008. The company wants to investigate the potential disclosure of confidential information and misconduct between the Gov't, regulators, JP Morgan and others that led to its seizure.

### **BofA Cards**

Starting in Feb., the Bank will conduct several test programs that will make credit card fees risk sensitive. Card fees will vary between \$29 to \$99 per year depending on risk profile.

### **RDC**

Banks can still do a better job of telling small business customers about remote deposit capture. A study by Aite finds 47% of small businesses do not know what RDC is, while 43% have heard of it but don't know details.

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