

DIGGING AROUND

by [Steve Brown](#)

One thing is for sure when you are digging a hole or doing work in the garden - that first push of the spade into soft dirt usually feels pretty satisfying. In that same vein, we have been doing some digging into the banking industry as of late and some of the artifacts we have unearthed we believe are quite interesting and worthy of sharing with you today. We have arranged them below in no particular order.

FDIC Chair Shelia Bair said on CNBC very recently that she thinks bank failures will peak in the 3Q of this year and be higher this year than last in total number (140 banks failed in 2009).

The FDIC reported that bank failures and ongoing consolidation pushed the number of insured banks in the country to 7,932. That is the first time the number has been below 8,000 in the 76Y history of the FDIC.

The FDIC indicates that "the vast majority of "problem" institutions do not fail, with just 13% of banks on that list reaching that point. That is good to know, since there are now 775 banks on that unreleased list or roughly 1 in 10 banks in the country. Of note, the number of problem institutions is the highest it has been in 17Ys (since 1993).

A survey of corporate treasurers finds 17% of all business-to-business wire payments are rerouted due to exceptions. By the end of the year, the FRB re-work of the wire system is expected to expand the business-to-business wire message from the current 140 characters to more than 9,000.

Banks seeking new D&O insurance may find it interesting that recent surveys find premiums for banks have risen about 57% over the past few years. Premiums paid by banks can range from \$10k to \$20k per \$1mm in coverage (depends on a variety of factors including whether the bank is public or not, loan portfolio mix and quality, etc.); and only top quality banks can get insurance coverage of \$25mm.

Banks thinking about their accounting firms may be interested to know that by revenue, a recent survey finds the top 8 accounting firms in 2009 in order were PricewaterhouseCoopers (\$26.2B), Deloitte & Touche (\$26.1B), Ernst & Young (\$21.4B), KPMG (\$20.1B), RSM McGladrey (\$1.5B), Grant Thornton (\$1.2B), CBIZ (\$0.8B) and BDO Seidman (\$0.7B).

For banks trying to manage wholesale funding usage, note that the initial base assessment rate is only increased if the bank's ratio of brokered deposits to domestic deposits is greater than 10%. Reciprocal brokered deposits should be included in the calculation when computing the ratio.

A recent analysis of hundreds of regulatory enforcement actions by the ABA found 83% focused on asset quality (reduce problem assets, improve loan policies, compliance with regulations on OREO and appraisals); 77% directed the bank to increase capital or create a plan to do so; 77% included provisions on management (requiring specific board actions, enhance reporting, improved board oversight, more independent directors and 3rd party assessment of the management team); 44% required audit processes be enhanced; 42% required enhanced minute taking; 30% required enhanced risk assessments and 27% required the establishment of a new product review process.

The most common business payment services offered by community banks, according to an ICBA survey are wire transfer (97%), ACH origination of payroll (84%) and recurring debits (82%). Meanwhile, online bill payment is now offered by 99% of community banks with assets > \$250mm.

No matter what you find while digging around the industry these days, one thing is for certain - it will probably be very interesting given all the changes.

BANK NEWS

Citi

In an effort to improve profitability, the Bank announced that it will shut 330 US branches and cut about 600 jobs from its CitiFinancial unit (consumer lending). The unit will no longer operate full-service branches in CT, NV and RI (due to cost, credit and compliance) and will look to change its name by year end. We look for the bank to sell off this unit next year.

Rating Agencies

They go before Congress today to help answer the question of how almost \$1T of "AAA" rated mortgage bonds were really closer to "BB-." While we know the answer, it will be fun to watch them evade the questions.

Muni Risk

NY State is the latest municipality to have financial problems, as it delayed \$2.5B of payments in an effort to manage short-term cash.

Card Cost

A new Fed study confirms the obvious that the recently enacted Credit Card Act provisions will increase the cost and availability of credit to small businesses.

Ag Lending

A recent ABA study shows that banks that specialize in ag lending extended \$126B of farm loans, accounting for a majority of farm credit outstanding in 2009.

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