CRUNCHING LOAN DATA & BIDING TIME

by Steve Brown

We ran some analysis (using FDIC data as of 1Q) and found banks with assets below $1B have seen their loan portfolio shrink by nearly 6% compared to the 1Q of 2009. Whether this was on purpose (deleveraging) or simply the result of fewer small business customers needing to borrow right now (given lower customer activity due to the economic crisis); the amount of credit available in the market from this group of banks has contracted by roughly $50B over this 1Y period. Suffice it to say that the environment continues to be tough and some bankers are beginning to feel the squeeze, as loan opportunities remain scarce. Until hiring once again resurfaces and consumer spending accelerates, it is likely that businesses will keep expansion plans on hold and reduce debt.

Given this backdrop, the commercial real estate (CRE) market has also been seeing some pressure. Bankers have long known that demand for commercial property is sensitive to the employment situation; so until the economy improves more, corporate profits rise and job creation picks up; pressure is expected to remain. Certainly, improvement is occurring slowly, but some regions will have to deal with increased vacancy rates, lower prices and rent concessions until more absorption occurs and that could take a little longer.

As if dealing with the supply-demand situation in the local area was not enough for community banks, there is some concern related to the overhang of upcoming commercial loans that were packaged into securities (CMBS) that are now due for refinancing. Across the country, but largely focused on metro areas, upcoming CMBS maturities will produce roughly $35B of CRE debt that needs to be refinanced this year, another $60B next year and yet another $65B in 2012. This all adds pressure to the CRE market and hurts loan valuations (more supply); so look for the CRE sector to remain pressured until these loans get refinanced or the economy recovers further.

There is some "good" news in the small business arena, however, but it appears more time will be needed until we can officially call it "great" news. Small businesses are becoming more confident, which is good. One year ago, only about 10% of small business owners felt confident in their future financial condition, according to an ABA study, compared to about 3x that level now. It is also good that about 51% of businesses surveyed said they expected sales to increase in the next 1Y, compared to only 17% who expected sales to fall. Unfortunately, the same survey also found small businesses expected to cut prices to boost sales in the next 1Y, so profits could remain thin. It appears likely that more time will be needed to bring back business outlay, growth opportunities and increased capital investment (taking out a loan), so patience will be needed here.

Check your bank's loan balance, along with capital and liquidity levels. If the analysis shows you have experienced just a little too much loan portfolio run off as of late, but it is difficult to find good borrowers in your community, give us a call. We have a pretty decent pipeline of floating rate C&I loans from large national borrowers that you might want to consider as a way to boost earnings (and diversify a bit), as you wait for conditions to ramp back up again in CRE over the next 12 to 24 months. Loans can be purchased in sizes as small as $1mm, with maturity dates as short as 2Y, 3Y or 4Y. PCBB handles the loan servicing to simplify the process and we can also provide you a loan write-up on each borrower to help get your underwriting process jump-started. In this way, at least you can add another alternative to lower fixed rate securities to help mitigate earnings pressure that comes with loan runoff (even in time for quarter-end in some cases) until things improve in the local market.

Sooner or later small business lending in every community will spring back to life. Until that happens, we wanted you to know about this program as yet another option we have for your bank to consider if loan portfolio runoff has been too fast (or loans have been hard to find). Call or email & we can get you started.

BANK NEWS

Fin Reg Update

The Committee is close to agreeing to the elimination of "industry influence" within the Fed. If approved into law, the current proposal would eliminate the 12 regional Fed president spots that are chosen to represent the industry. Today, the Committee will finalized the role of the NY Fed President (the position may be one appointed by the President) and if the Fed will be subject to the GAO.

No FNMA or FHLMC Shares

The FHFA ordered FNMA and FHLMC to delist their shares from the NYSE after FNMA's shares traded below $1 for 30 days, a violation of NYSE listing requirements. Both stocks will still trade OTC.

CD $

The FRB confirms dollar volume in bank CDs has hit a 4Y low. Given tons of liquidity, banks have dropped CD rates to the lowest levels in recorded history and pushed money into money market and DDA accounts.

Late on TARP

91 Banks missed their May TARP payment. For 68, it was not the first time, according to SNL Financial.

Credit Card Performance

Delinquencies at major banks fell to a 5 month low, as more consumers paid current.