ONGOING BUSINESS DISCUSSION

by Steve Brown

There are quite a few interesting things going on in the banking industry right now that are worthy of discussing. While many bankers took last week off and enjoyed a brief vacation respite from the madness, many others continued to toil away. Whether you were lucky enough to get some time off last week, we know you continued to read and think about the impact of ever-changing industry trends. Here are some we believe bankers will find interesting as we all await an eventual upturn in the economy that can be deemed significant enough to sink one's teeth into.

Customers remain interested in safety and liquidity. Corporations left nearly $1.3T in bank deposit accounts so far in 2010, nearly a 9% increase over 2009. Low interest rates are being accepted by corporate treasurers right now as a trade off to address risk and liquidity concerns. A study by Treasury Strategies finds that commercial DDA balances increased 14% over this period, reaching $603B.

A survey of bank treasurers, funding managers and investment officers by Citigroup, meanwhile, found 46% of those surveyed expect the FRB will not raise interest rates until the 1H of 2011, while 31% think it won't happen until the 2H of 2011. Many feel interest rate risk will not be a major issue for banks for the near-term, since the FRB will be on hold for at least 1Y.

Jumping to the funding side of the fence, the same Citigroup survey found 69% of bank treasurers, funding managers and investment officers model their deposits between 2Ys and 5Ys average life (of note, 23% modeled deposits under 2Ys). A whopping 44% also said the market for deposits had become less competitive in the last year.

When it comes to lending activity, many banks are still sitting on the sidelines. Lending is down and while a recent study found some 65% of bankers believe credit problems at their organizations have peaked, many remain skittish about getting back involved. One reason for this issue is that small business owners are not anxious to expand given all the uncertainty, but another is that qualifying has become more difficult. Bankers want to lend because that is their primary business, but there is not doubt that things are more difficult. Consider brand new information released from FICO that found nearly 26% of consumers now have a credit score of 599 or below, making them a high risk borrower. This compares to the historical average of 15% of consumers that normally fall below 599. In comparing the absolute number of people that are below this demarcation line historically to now - consider that the increase has been nearly 70%.

The industry also remains awash in liquidity right now. In fact, the FRB has injected about $1.4T into the banking system, banks now hold roughly $1T of excess reserves and nonfinancial corporations hold around $1.5T of cash on their books. This cash needs to go somewhere soon if we are going to pull ourselves out of this economic mess.

This week, the Senate will begin the final push to approve the most comprehensive rewrite of financial rules since the Great Depression. The bill is expected to pass, as it moves on to the Administration to be signed into law. While that process and other significant industry changes have been interesting to follow, the real changes will come as the law is interpreted by the regulatory agencies and it evolves even further over the next several years. We'll keep the discussion open on these and other issues as our industry continues to change, morph, modify and otherwise shift; since the impact will certainly be significant.

BANK NEWS

Closed (93 YTD)

On Fri., the FDIC closed: 1) Bay National Bank ($282mm, MD) and sold it to Bay Bank, FSB. Bay Bank will assume all deposits (no premium) and virtually all assets. 2) Ideal FSB ($63mm, MD) and will pay out all insured deposits. All transactional accounts were transferred to M&T Bank ($67B, NY). 3) USA Bank ($193mm, NY) was sold to New Century Bank ($504mm, PA). New Century acquired all deposits (no premium) and essentially all assets ($159mm under a loss share). 4) Home National Bank ($645mm, OK) with RCB Bank ($1.4B, OK) purchasing all deposits (0.22% premium) and $340mm in assets. Separately, Enterprise Bank & Trust ($2.3B, MO) acquired $261mm in assets.

IPO Delayed

Fortune Bank's ($126mm, WA) long awaited $350mm+ IPO has been pushed for an undisclosed reason. No new date has yet been set.

SBA

Higher guarantees and fee waivers ended in May, and average loan volumes per week fell to $86mm in the first 4wks of Jun (from an average of $272mm in May (not including the $732mm that came in the last week of the month)).

FHA Requirements

The FHA has set out new guidelines on multifamily loans, increasing DSCR hurdles and lowering LTV ratios depending on the risk profile.

TARP

A study by Keefe finds that of the $137B that has been repaid from the Capital Purchase Program, returns have averaged 10% including $2.3B in losses thus far. The remaining $65B has yet to be repaid.