

GETTING A GOOD NIGHT'S SLEEP

by [Steve Brown](#)

Good morning. How did you sleep? Unless you took Ambien last night, chances are your self-conscious was keeping you awake with the nagging question,

"How am I going to achieve a respectable ROE in 2011?" The absence of loan growth, low interest rates and increased regulatory costs makes generating any profitability a real challenge. We don't need to remind you that you have a tremendous amount of pressure to get the "E" in your CAMELS up, impress your new investors, make that acquisition accretive faster or just please existing shareholders. As if that wasn't enough, we are sure it would also be helpful to have a morale booster for your employees that only outsized earnings can deliver. If this is what is keeping you up at night, throw away the drugs and be prepared to sleep well tonight, because we have delivered the majority of your solution.

We are proud to announce the latest release of BIGProfit, our online customer profitability model. Priced so you can afford it, easy enough to get up and running in mere weeks and powerful enough help your bank run circles around the competition, BIGProfit gives you the advantage of seeing risk-adjusted profitability for the first time. We will quickly add that this is not only software, a relationship that makes us your strategic partner. Unlike other software-only solutions, we help you interpret the results and strategize in order to maximize shareholder value. We typically give bankers on BIGProfit 5 significant ideas the first week of delivering the reports that can dramatically boost ROE.

BIGProfit is a fully-integrated relationship profitability system that connects to your core system (whichever one you use) and allows you to use the same credit, interest rate, options and pricing model across loans, fees and deposits. The calculation methodology is customizable, allowing each bank to fit things to particular needs and preferences. Better yet, the model captures the latest probability of default, volatility and loss given default updates on a monthly basis, so you can price your loans with the latest performance information. Data is provided down to the zip code level and includes caps and floors. On the deposit side, it is equally powerful, as it is one of the only handful of models that incorporates cross-durations (the change in duration that comes from using various multiple products).

To the extent your bank is shrinking, reducing costs or acquiring customers, BIGProfit is invaluable, as it gives you a quantitative basis for making such decisions. BIGProfit is designed for community banks and its powerful engine delivers more rational pricing of both loans and deposits, allowing you to steal quantifiably profitable clients away from larger banks. We are confident the model will pay for itself within the first 3 months and have designed our pricing to work with every size bank.

For 2011, things will be tough, so don't you owe it to yourself to see who your most profitable customers are. Not only do you not have to give all customers the same price, but using BIGProfit will help you train your staff on how to recognize a profitable relationship when it walks in the door. It is strategic planning time right now, so if you do nothing else next year, get on BIGProfit right now to retain important customers and manage the rest to profitability. Nothing is easy, but you will certainly sleep easier knowing you are well on your way to boosting ROE. Contact us to find out more.

BANK NEWS

Earnings

Wells Fargo posted \$3.3B of net income, up from \$3.2B for the same period last year and ahead of estimates. While revenue fell 7% due to slower loan growth, credit quality improved, reducing the allowance for loan losses. Bank of NY Mellon's 3Q net income jumped to \$622mm, following a \$2.5B loss the same time last year, largely from rising market values of assets held. Goldman Sachs posted a \$1.9B quarterly profit, down \$1.3B from the same period last year. The bank's largest revenue drivers (fixed income, commodities and currency trading), dropped 37% from 3Q09.

DIF Revision

As a welcome change, the FDIC revised their DIF requirement downward, due to a lower than expected number of bank failures going forward. As such, 2011's scheduled 3bp hike has been tabled. In addition, the FDIC put forth a proposal that would set the designated reserve ratio at 2% as a minimum goal and adjust reductions in assessments once that is obtained and again should the Fund hit 2.5%. Presently the target ratio is 1.15%.

Farmland

FDIC Chairman Bair warned of a potential pricing bubble in farmland as current values are 58% higher than in 2000 (on an inflation adjusted basis).

Confidence

The Conference Board's measure of CEO confidence hit 50 this month, down from 62 from last quarter and the lowest since 1Q 2009.

Foreclosures

New data from RealtyTrac finds foreclosure activity in Sep climbed on both a monthly and annual basis for the first time in 4 months (rising 2.53% from Aug and 1.10% from the same time last year). In total, 347,420 properties were in the foreclosure process and 1 in every 371 households received a foreclosure notice during the month.

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