FIRST QUARTER RECAP (PART II):

by Steve Brown

Yesterday we discussed some high level performance data for different bank asset sizes for the industry. Today, we highlight some volume and other trends that may hopefully add perspective to your performance.

If it seems like loan growth is harder to find - it is. New loans, not including leases, dropped 9.81% for the industry (annualized 1Q vs. 4Q). For community banks below $10B in total assets, net loans decreased 5.3% over the same period. Most categories decreased, with the exception of CRE. Consumer volumes suffered the largest decrease, followed by agriculture. From a composition standpoint, residential real estate exposure grew as a portion of total assets to 39.2%, as did CRE, which now comprises 16.9% of bank's balance sheets. Isolating community banks, the trends were about the same, just a little more damped as the rate of increase or decrease was lower in most categories.

While we are talking credit, as mentioned yesterday, the largest driver of profitability was an increase in asset quality. Non-accruing loans decreased 10.5%, as did delinquencies in every category. OREO levels fell by 1.63%, which helped recoveries jump 8.9%. Better loan performance and lower loan growth, resulted in a 9.1% decrease in ALLL. ALLL now stands at 3.0% of all loans, down slightly from 3.08% last quarter. As a percent of non-current loans, ALLL was 62.7%, up from 62.3% in 4Q.

Turning to deposits, the total increased for the industry by 1.7% (1.5% for community banks), as liquidity kept increasing at both commercial and retail clients. In addition, bank deposits remained competitive to other investment alternatives. The best news here is that non-interest deposits increased by almost 4%, and now make up 23.8% of a bank's liability structure. This is a level banks haven't seen in more than 8Ys and represents an opportunity to re-train this sector to be less interest rate sensitive. Most of this increase was driven by a 4.4% hike in checking account volume. Money market growth was 1.9% and now makes up 52.7% of a bank's liability structure, also a high point in over 8Ys. The use of CDs also decreased and now is only 23.5% of a bank's liability structure - the lowest in 8Ys. Wholesale money fell at banks, as volumes were down 12.6%, largely driven by a decrease in Fed Funds purchased and FHLB Advances.

The asset-liability structure at banks largely stayed the same, although it should be noted that the use of longer maturity CDs, past 3Ys showed an increase. On the loan repricing side, composition was stable; however a slight increase was noted at community banks for loans with 1Y resets and fixed rate loans in the 3-5Y category.

The income statement improved, however interest income decreased 3.4% at the average bank, as did non-interest income by 0.8%. Luckily, interest expense decreased 12.6%, but non-interest expense increased some 3%. Also of interesting note is banks were able to take about 40% less gains in loan sales and in the securities portfolio. The net result of the changes in volume, revenue, expenses, asset sales and ALLL, resulted in an increase in net income at banks by 31.5%.

We are still compiling the data for individual regional performance, but it should be noted that geography played more a role in performance this quarter than asset size, charter and customer orientation. We also have on our list of things to do, to analyze risk-adjusted loan performance, so look for that to be presented soon. Until then, most of the trends in banking are going the right way, a very positive sign for shareholders and those that are looking to raise capital.

BANK NEWS

Earnings

424 companies in the S&P 500 have reported earnings and 72% have beat estimates.

Servicing Settlement

The 5 banks that service 59% of all mortgages in the country, have reportedly offered $5B to settle a probe of foreclosure practices.

Closing Branches

BancorpSouth ($13.5B, MS) said it plans to close 23 underperforming branches this year (about 8% of its total branches), as the bank seeks to improve performance, enhance efficiency and reduce costs.

Moral Hazard

Highlighting the moral hazard risk, FDIC Chair Shelia Bair raised concerns about the government having to bail out the $2.7T money-market fund industry in the event of a future financial crisis. SEC Chair Mary Schapiro has called for tighter regulations to limit systemic risks posed by money market funds.

Housing Shift

At the end of this summer, the government will reduce the size of mortgages it insures from $729,750 to about $483,000. States most likely to be impacted the worst include CA, CT, MA, NY and NJ.

Social Media

Bankers thinking about social media channels might be interested to know a new American Century survey of investment advisors finds 21% use LinkedIn for business; 17% use Facebook and 1% use Twitter.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.