PLANKING AND LOANS

by Steve Brown

Less you think Americans have the corner on the market on stupid trends such as letting your pants hang around your thighs with your underwear out, Australians entered the competition several years ago with the pastime of "Planking." Here, people take pictures of themselves in odd places as they lay face down, stiff as a board. While somewhat humorous, the trend goes really wrong when hobbyist need to diversify their portfolio of pictures and start planking on moving cars, train tracks, live animals and in other dangerous situations. In similar vein, banks that are trying to grow and diversify their loan portfolios away from real estate sometimes take on riskier credits than they need. To help prevent banks from lowering their standards in the local market, we provide a suitable loan alternative that large banks use to grow their C&I portfolios. In the last 4 quarters, national banks have witnessed growth in the C&I loan category, however, community banks have seen their prospects in this loan category diminish. Total loan volume for banks under $1B in asset size has decreased 2.3% in the last reported quarter, and C&I volume for the same banks has decreased 4.1% in the same period. If our customer banks cannot book quality loans, then earnings will be stressed, capital diminished and business models questioned. Our national C&I loan program provides access to credits that are normally difficult for community banks to obtain. These loans are made to large borrowers who seek commitment amounts from their individual banks. We originate these loans through a syndicate group and then break up our aggregate purchase in the loan to sizes appealing to our community bank customers (typically down to $1mm). These loans are shared national credits and the regulator's disposition or loan rating applies universally to each bank that owns the loan. That is a benefit because the loan booked by our community bank will have the same rating as that same loan booked at Bank of America or other lead bank. Our customers are assured that PCBB is not influencing the rating and that PCBB is not withholding information. In a time when loan growth is challenging and competition is intense, our program offers immediate access to credit without the perils of competition and shopping by the borrower. A community bank that wants to participate in our program will know upfront the risk and return associated with the credit. We have noted in the past that many community banks have become liability sensitive in 2009 and could benefit from floating rate assets. To mitigate this risk, our program specializes in offering a wide variety of floating-rate loans (borrowers hedge themselves on their balance sheet) set of different indices. Further, when it comes to credit diversification, these national syndicated credits have good (low to negative) correlation to real estate markets (when real estate values drop, the prospect for C&I credit does not follow) thus helping most banks lower their overall risk profile. Another benefit of the program is that we provide our underwriting work and share our analysis with your bank to assist in your credit underwriting process. At PCBB, we have beenusing the very same national C&I loan market to bolster our loan volumes and we make our underwriters available to you so that you can learn from our knowledge. Before you start originating loans on top of moving cars or animals, consider our C&I program to help add loan growth and diversify your loan portfolio in a safe and sane manner. If you would like to see available loans, review an underwriting package or learn more, please join us by signing up on one of the links in the "related links" section on the bottom right of this page.

BANK NEWS

Reg Q

The FDIC reminded banks that if they modify the terms of their DDA accounts to pay interest, the institution must notify customers that the account no longer will be eligible for unlimited deposit insurance coverage as a noninterest-bearing transaction account.

Foreclosures

RealtyTrac reports that sales of bank-owned homes and those in foreclosure accounted for 28% percent of all sales in 1Q, up from 27% in 4Q. The average sales price of foreclosure properties was nearly 27% below the average sales price of properties not in foreclosure.

Correction on ERISA

Our story last week about the 6th Court of Appeals supporting a lower court's ruling that a bank acting in the capacity of directed trustee cannot be held liable under the Employee Retirement Income Security Act for the investment performance of 401(k) plans was incorrect in that the ruling went against UMB. The Court of Appeals affirmed the standing of the 2 doctors that lost money and took action against UMB Bank as trustee.