

## MIND OVER MATTER

by [Steve Brown](#)

No one is quite sure why old men have more hair sticking out of their ears than seems normal. Whether their eyesight is going and they can no longer see the clumps pushing out from their ears, or people are simply too shocked to say anything, the fact remains that the older you get the more hair that seems to grow out of your ears. As if uncontrollable hair growth wasn't enough of a problem, research from Harvard, the NY University and the Federal Reserve also recently pointed out that financial skills tend to peak at about age 53 (for both men and women). Who knew we would all be over the hill, at least from a financially adept banking perspective, at such a young age. As such, to make life a little bit easier on everyone, here are some things we have heard around the industry, based on recent conversations with bankers, regulators and researchers.

Key areas we have heard over and over where bankers are focused on issues and driving initiatives are around improving asset quality, dealing with regulatory compliance, managing risk and tightening up on expenses to improve bottom line performance. Beyond these, we have also seen a heightened focus on improving capital management, maintaining employee motivation, retaining and capturing new customers, enhancing technology and tightening up data security. These are all important, but perhaps the most common thing we have heard in general terms is a desire to revamp the business model to deal with the changed industry. While perhaps not yet clearly defined, this overriding push can be seen individually to some extent in the issues identified above (which one could argue are all subcomponents of the single biggest shift in our industry in any of our lifetimes).

Another area of focus for community bankers is the backdrop of extremely slow economic recovery. Residential housing prices have entered a double dip and fears remain about the overhang in commercial real estate, given that 33% of all CRE in the country comes due in the next 2Ys and will have to get paid off, refinanced or could go into default. That has regulators and bankers alike worried, as everyone waits for greater clarity. This paralysis has many sitting on the sidelines, or buying securities to supplement weak loan production. On the funding side, banks remain awash in deposits, so little pressure is happening there right now. As the year has unfolded, bankers continue efforts to drive down funding costs inch by inch and will likely let maturing FHLB advances roll off in order to improve NIM.

Bankers are also struggling mightily to generate new loans. While the largest banks have reported an uptick in C&I lending from larger corporations, the small business customer remains concerned, so loans are difficult to come by. Competition for business loans is high, given limited flow and a need by banks to generate more revenue and better leverage capital. Ongoing pressure has also led to more M&A discussion, but accounting problems with the mark to market are keeping things subdued for now. Only time will tell whether this wave will ever reach the beach in the size some are currently projecting.

Finally, regulators have stepped up expectations around the frequency and depth of board reporting. Examiners expect more reports to the board, with emphasis on ALM assumptions, risk concentrations, strategy and historical trends. They also are looking for banks to utilize stress testing analysis for all loan types (not just CRE) and to incorporate the impact of adverse changes on capital, liquidity and earnings. Regulators want to see loan loss reserves based on the bank's own recent experience, with

a better understanding of where risks in the portfolio could be heading and proactive steps being taken.

The good news this morning is that for everyone over 53 years old, notice we left the math completely out of it. We end with a final quote from Mark Twain, who once famously quipped, "Age is an issue of mind over matter. If you don't mind, it doesn't matter."

## **BANK NEWS**

### **Online and Mobile**

Bank of America now reports it has about 7mm active mobile web based customers and 1.2mm text banking customers.

### **Dodd Frank**

The ABA reports the Fed currently has 245 projects underway and the OCC has 65.

### **Lower Dividends**

S&P reports the overall dividend yield for the financial sector is 1.5% today, less than half the 3.3% level prior to the financial meltdown.

### **Faster**

Not wanting US banks to gain an unfair advantage, the European Commissioner in charge of financial regulation sent a letter to Treasury Sec. Geithner urging US regulators to pick up the pace of financial reforms to match the EU.

### **Closed Correction**

First Heritage Bank (\$173mm, WA) was acquired from the FDIC by Columbia State Bank (\$4.3B, WA) for a 75bp deposit premium (not a discount) and a majority of assets under loss share.

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