FUN WITH MONEY AND LOANS

by Steve Brown

People will do lots of things with money, which unfortunately is in shorter supply these days. To reduce stress, we ask you to close your eyes, breathe deeply and since you are all bankers - think about piles and piles of money all around you for just a moment. Now you can start your day with reduced stress and consider these financial tidbits: studies show 8x as many Americans would rather use an ATM than deal with a live teller; Hitachi ATM machines in Japan briefly press dispensed bills between heated rollers at a high enough temperature to kill most bacteria and 65% of Americans would live on a deserted island by themselves for an entire year for $1mm. Speaking of money and trying to generate more, given so many bankers are seeking new loans to originate; we jumped into the research to find out where opportunities might surface and some difficulties remain. On a national basis, annual loan growth rates have been declining since late 2008 and now sit at negative 2.0% as of 2Q annualized. The data shows banks are still struggling with loan origination, which dipped into negative territory in 2Q of 2010 nationally and has drifted slowly downward since then. Clearly, generating loans remains difficult and is one reason bankers are talking more about closing branches or ramping up marketing efforts to capture new loan customers. Loan growth has been tough to find and data from the Fed in this regard is enlightening. While only reviewed for one of the Fed districts, a recent report shows loan growth is coming in C&I, multifamily and single family residential. This rings true when we talk to community bankers, many of whom say they have moved into these specific areas in an attempt to increase loans and take market share away from larger banks. Also of interest, we find the same Fed data shows banks rated CAMELS 1 or 2 are finding opportunities to grow loans, while those rated CAMELS 3 are shrinking at about a 2.5% annualized rate. Even more interesting, banks rated CAMELS 4 or 5 are shrinking at nearly 5x the pace of banks rated a 3, as they aggressively seek to boost capital ratios and survive to fight another day. Banks have been deleveraging along with businesses and consumers. The combination effect has impacted the volume of loans to assets that banks have been able to retain. Overall, 2Q loans-to-assets fell to just over 61% nationally, down from about 67% in 2008 (roughly 9%). Financial deleveraging is a time consuming process to be sure, with analysis indicating it historically takes about 8Ys from the time it begins (2008+8Ys=2016), so don't expect miracles. Loan growth will likely be tough to come by for some time. Given all of these difficulties in the marketplace and heavy competition for new loans (studies find the average small business client now asks 3 banks for the same loan, in order to shop rates and terms), you can take some proactive steps to protect your franchise. These can include closely monitoring and understanding why a loan paid off (where did it go, what drove the decisioning, do you have a new competitor in the market); making sure loan operations alerts senior management of any requests for large balance payoffs (customers usually double- check their outstanding loan amount before they pay it off and you can counter if you react quickly); reviewing loans with higher coupons that are "off-market," to determine credit risk or potential for prepayment (loans with a coupon above 6% these days should have paid off by now given the low level of interest rates, so find out why they haven't to protect the bank) and proactively call customers with loans that mature in 9 months to get them locked in and rolled over into a new one (fight hard to keep mature relationships before someone else finds them and pitches some "deal" that could cost your bank a customer). There are lots of things you can do in the lending area to improve, but be patient. GDP is only 1.3%, so that is about what you can expect to see in loan growth. Focusing inward on existing customers is a great place to start. As you do, you can at least have some fun during lunch by quoting studies that find 92% of Americans would rather be rich than find the love of their lives and that when flipping a coin, about 3x as many people guess "heads" than "tails."

BANK NEWS

Closed (74)

First International Bank ($240mm, TX) was shuttered and assumed by American First National Bank ($708mm, TX) without premium.

Fed Moves

The Fed starts to execute "Operation Twist" this week in the open market. In addition, Chair Bernanke will give his semi-annual update to Congress tomorrow and the Fed is said to have requested additional liquidity reports from European Banks with material operations in the US.

Major Outage

A reported internal problem caused Bank of America's online banking application to be unusable for more than 2 hours on Friday (causing a rash of rumors that all proved to be false).

Mortgage Negotiations

CA follows NY and becomes the latest state to drop out of the negotiations between state AGs and the nation's biggest banks over settling foreclosure-related charges. With two of the country's biggest states no longer negotiating, the odds of a final settlement are low.

Citi Fees

Citibank sent notice to their entry level and mid range checking account holders that a $15 and $20 monthly fee will be imposed. This starts in the next 2 months, unless balances are above $6k and $15k, respectively.