THIS OLD BANK

by Steve Brown

Only 3 banks in the US can claim that they are more than 200Ys old. The oldest surviving bank in the country, at 219Ys old, is State Street Bank and Trust Company ($203B, MA). State Street has grown assets by an impressive $920mm every year since inception. They are the only bank remaining in the country that opened in the 1700's (opened in 1792) that is still around today.

Of the other two banks that are more than 200Ys old, only PNC has grown nearly as much ($261B in size) since its establishment in 1804. Due to recent mergers, there is now only one remaining community bank that is more than 200Ys old and that is the Washington Trust Company of Westerly ($3B, RI). Interestingly, while State Street and PNC focused on growth, Washington Trust Co of Westerly added a mere $13k per year in assets.

Looking at the next group of banks that formed in the 1800's, a whopping 1,389 are still in business. This number is down 1.2% from last year, a fact that highlights even 100+ year old banks can fail, while M&A consolidation is about the same clip as a 50Y old bank. Of those banks that have been open well over 100Ys, 48 have less than $25mm in total assets. The smallest in the bunch, Oakwood State Bank out of Oakwood, TX, tips the scales at just over $4mm in assets. Our point here is that you don't have to grow to survive. In fact, you don't even have to be in this century, as Oakwood State Bank holds a gaggle of other distinctions in the banking industry such as the only bank - without a computer, that still types deposit slips by hand, that keeps a manual general ledger, without voicemail and with the oldest workforce (an average age of 78). Despite the lack of technology, the Bank had a 64% efficiency ratio and a 7.8% ROE last quarter.

Looking at the universe of financial institutions, the weighted average (based on assets) years in business is 92Ys. Even on a simple basis, the average bank has been around some 58Ys.

While we are talking about bank age, it is interesting to note a couple of points. One is that while weak, bank age and performance are positively correlated. The age of a bank tends to explain about 2% of net income performance. Granted, that is not much, but older banks tend to perform slightly better than younger counterparts. This tendency happens to be the strongest for banks that are 30Ys to 80Ys old, as that is the "sweet spot" where age is the greatest protective factor to earnings.

There is no surprise that after 2009, banks are getting older and not younger for the first time in more than a decade. Without De Novo charters, the only new banks for 2011 were restructured charters from FDIC-assisted bridge banks. Another interesting fact is there are 580 banks still in their De Novo stage or about 8% of all banks. For the record, our nation's youngest bank, Start Community Bank ($13mm, CT) turns 1Y old today.

Finally, for the history buffs out there, the first bank ever formed in the US was literally The First Bank. Its charter was drafted in 1791 by Congress and signed by George Washington with the intention of becoming our central bank. In 1811, however, Congress voted to abandon the bank and its charter due to the need for greater capital - a trend that is unfortunately still with us.

BANK NEWS

Branches

Closing - Associated Banc Corp ($21.6B, WI) will close 21 branches in 3 states by mid 2012, as it responds to a changing regulatory and competitive environment and seeks to boost performance. Opening - BankUnited ($10.9B, FL) has opened 12 branches in the past 6 weeks in FL as it seeks to deploy $783mm in capital raised earlier this year and expand its footprint.

Ugly Industrial

S&P reports delinquencies on industrial property loans packaged into CMBS soared to a 22Y high, as rental income from warehouses tanked. The delinquency rate as of 3Q was 12.05% and net operating income had fallen at 47% of the properties used as collateral for industrial CMBS (since the securities were issued).

Capital Hit

The WSJ is reporting that the Fed is likely to adopt Basel III framework that requires systemically large financial institutions to hold extra capital. Preliminary internal estimates from the Basel Committee indicate JP Morgan and Citigroup would have to hold 2.5% of extra capital as a percentage of risk-weighted assets, on top of the 7% base that all institutions will be required to hold. JP and Citi are the highest because global regulators apply more weight to banks that handle large amounts of short-term lending and borrowing with other financial institutions and maintain large debt and equity underwriting practices. The estimates show Bank of America would need an extra 2%; Morgan Stanley and Goldman Sachs would need 1% to 1.5%; and Wells Fargo would need 1%.

Layoffs 2012

Banking analyst Dick Bove predicted banks will lay off 150,000 more employees, on top of the 230,000 from this year, as tough regulations and a weak economy combine to shrink the US financial system.

TBTF Interesting

In an effort to ensure the safety of the UK banking system, the government there plans to require banks to segregate their retail activities from their riskier investment-banking activities. The UK government said they wanted to separate high street (aka "Main Street") banking from investment banking to protect the British economy, taxpayers and make sure that nothing is too big to fail.

Economic Growth

Richmond Fed President Lacker said he expects the economy to grow between 2% to 2.5% in 2012. Meanwhile, Goldman forecasts 1.5% to 2% next year.

Industry Weakness

Banking analyst Mike Mayo predicts 2011 revenue for US banks will be the worst since 1938; 2012 won't be much better; banks must cut branches to reduce cost and the recovery will take many more years.