

TIME FOR A VACATION FOR LOTS OF REASONS

by [Steve Brown](#)

Research finds simply thinking about a vacation can increase your happiness, which is good, particularly when you consider the average worker in this country leaves 6.2 days unused. If you are thinking about where to go on your next trip, know that about 30% of people plan to seek out adventure travel that requires intense physical activity or discovering an exotic culture. Whether your choice is to sit in the office and dream about taking a vacation, actually going to a beach or jumping out of a plane over the Amazon jungle and hiking to some waterfall; doing so is good for you. Studies find vacationing can reduce stress and depression; lower blood pressure; shrink waistlines; boost creativity/innovation and improve productivity. We bring up the idea of taking a vacation because bankers are going to need one if the FOMC meeting results from yesterday are any indication. The key points from that meeting are: that the Fed "expects to maintain a highly accommodating stance for monetary policy;" "economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through 2014;" and the option of further large scale bond purchase to pull down longer term rates is "still on the table." That is about as direct as you can make it - the Fed is still worried about the economic recovery and to spur things along, plans to keep rates low for at least the next 3Ys. That doesn't mean you can take a vacation for that long, however, despite the fact you might need one now. Rather, it points to a central bank focused on trying to spur investment, consumer spending and generating GDP growth. The slightly spooky part of all of this is that 5 officials don't predict a rate increase until 2014, 4 don't think it will come until 2015 and 2 project it will be 2016 (the rest are earlier). The good news is that the Fed sees the economy gradually growing, but they also see unemployment only gradually falling from very high levels and downgraded 2012 GDP predictions about 9% to a range of 2.2% to 2.7%. The Fed is worried that the recovery remains too slow and is carrying significant downside risks that include Europe, slowing business investment, high unemployment and potential tax increases. Bernanke even went further in the Q&A section of his press briefing, saying he sees improvement in some areas of the economy, but "mixed results" in others, "headwinds" from Europe, a "slowing global economy," and isn't ready to say the U.S. economy has "entered a new, stronger phase at this point." This news for community bankers is anything but a vacation. Coupon income and funding costs drive so much of community bank profitability, a long hold on rates at such low levels, is going to be a big problem. Bankers now will have to focus immediately on cutting funding costs, as assets will prepay even faster and loan competition will increase. It will be harder to earn a decent return and reinvestment yields will be treacherously low. The squeeze on margins will continue, so we expect banks to more aggressively shift to cost cutting that will include branch closures and layoffs. Given this rough backdrop, we would also expect to see more M&A activity, as it becomes difficult to earn a decent return on capital. Pressure is likely to increase risk-taking, so we also expect regulators to be monitoring things closely, with an eye towards banks that go out the curve to get yield or misprice risk, misallocate capital or reduce underwriting standards. Take the time to plan a good vacation this year and be sure to take it so you can stay healthy and keep your mind as relaxed as possible. You are still in one of the toughest industries and environments known to man, but community bankers are tough, resilient and are drastically needed to deliver business growth through lending. The good news is that nothing lasts forever, pundits/predictions are often wrong and lower rates should eventually produce economic growth, increase household wealth and drive more business borrowing. Know that as you try to rest

and relax on your vacation this year, you have earned it. If that doesn't do the trick, try to relax because you will probably need it, to handle this challenge for the next few years. Know also that as this unfolds, we will be there to help you.

BANK NEWS

Exam Feedback

The ABA released their 1,000 bank survey that asked questions about recent safety-and-soundness exams. While 50% of bankers reported being satisfied with the outcome, 32% were either "dissatisfied" or "very dissatisfied" (a finding that is up 2% from last year). However, to place those numbers in perspective, 30% of those surveyed are under a written order. More banks saw their CAMELS scores upgraded than downgraded (19% vs. 17%), while 64% were unchanged. In terms of loan quality, 41% had their loans criticized without required action, while 20% of the banks had criticism requiring action. Finally, 33% of the banks agreed with the statement examiners enforced guidance as if it were regulation.

New Product

In an effort to boost account activity, card use and deepen relationships with merchants, Bank of America is testing a new service called BankAmeriDeals. The service will let customers save money through targeted online discounts from retailers, based on prior spending patterns. Offers will come through the bank's online website and discounts will be awarded in cash 1x per month.

SBA Profit

The Treasury completed a sale of the guaranteed portion of 31 securitized SBA loans totaling \$368mm that it purchased with TARP funds and sold for an \$8mm profit, or for a total return of approximately 1.6%.

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