SUPER BOWL XLVI & BANKING

by Steve Brown

As we get rolling this morning, we tip our hats to the New York Giants for winning the NFL Super Bowl over the New England Patriots 21-17 on Sunday. Eli Manning was named MVP, people ate buckets of chips, David Beckham posed in his underwear, vampires were vanquished with an Audi and a scrawny dog ran around getting beer for everyone. This year we have to say the advertising didn't reach the pinnacle of funny we have come to expect and both the Coca-Cola bears and the talking baby (did you notice it was a new kid since the other one is old enough to shave now) seemed stale to us. Nonetheless, the Super Bowl is quite the event indeed, providing a bonding opportunity for large groups of people, a great day for food sales of all types and delivering the most-watched event of the year with probably more than 111mm viewers. NBC is likely strutting around like a peacock this morning, after capturing around $250mm for this single game alone just for advertising. Now that this event is over and we have to wait another year, it is back to work for bankers. Speaking of the numbers, as we await 4Q data in final form, we briefly look back to the 3Q to make a couple of points. First, the data shows banks with assets below $1B are carrying funding costs about 23bp (or roughly 28%) higher than larger banks (1.04% vs. 0.81%). When assets are tough to find and even tougher to find at a reasonable yield, that hurts performance and it requires a renewed focus to reduce funding costs whenever and wherever possible to get more lift on the margin from the margin. Next, banks below $1B have an efficiency ratio that is about 23% worse (74.2% vs. 60.4%) than the larger banks. This is because of higher branch and infrastructure costs, legal expenses around loan workouts and a smaller earning asset base to carry such costs. This one is troublesome as there is little a bank can do unless it is willing to reduce the footprint and try to find a way to sell off unproductive branches in the system (we expect to see more of this in 2012, as banks restructure to meet ever-changed consumer behavior with iPads, online banking and other remote access alternatives). Finally, community banks are producing an ROE that is about 279bp lower that the larger banks. Community banks have plenty of capital (running almost 200bp higher in Total Risk-Based Capital), but putting it to work has become quite difficult indeed given the market environment. One key this year, in addition to aggressively pushing down the funding cost, squeezing more sales from the branches and right-sizing the physical footprint to match customer demand, will come in the form of lending activity. The good news here is that while community banks with assets below $1B have a loan-to - deposit ratio of about 72%, this is only 2% below the level of the larger banks. That means community banks are getting their fair share of lending opportunities in relative terms, despite the fact that such opportunities are few and far between. Improving lending flows will take time given the economy, so expect activity to roughly match the economy and grow at 1% to 2% this year. As that happens, focus energies internally on the bank, as you attack outlier areas that could be improved when compared to this larger cohort. Doing this is never going to be easy, but it could help your team surface new opportunities, slowly improve various metrics over time and continue to take steps toward that goal line as the clock winds down. Clearly community banks are struggling under the weight of regulatory pressures, lower margins and sticky cost structures, but as we saw with the game this weekend, executing consistently is likely to deliver better results than throwing up a "Hail Mary" pass. As you play your own Super Bowl this year against other bank competitors, focusing on the fundamentals, limiting mistakes and having a good advertisement or two can deliver results. We'll delve back into the X's and O's once again and point out plays you might want to consider with your own franchise, as soon as the 4Q data is final.

BANK NEWS

Dot Bank

Several trade organizations, largely led by the ABA, are working to ensure that the industry has some control over who gets the new ".bank" internet domain.

Downsizing

Emigrant Bank ($12B, NY) announced they will look to sell their online bank and/or downsize their branch footprint in an effort to raise capital.

Academia

Fed Chairman Ben Bernanke announced that he will deliver a series of 4 lectures to undergraduates at the George Washington University School of Business on the Fed's role in the US economy. The lectures will start in March and will also be televised on the web.

No Paper

The OCC said by Jun 1 it will stop printing and mailing most publications, including OCC alerts, bulletins, legal interpretations and consumer advisories as it switches to electronic dissemination.

Less Leverage

Equifax reports U.S. consumers sharply reduced their debts by 11% last year, from $12.4T to 11.1T.

Phishing & DMARC.org

In an attempt to sharply reduce phishing emails, giant service providers such as Google, Yahoo, Microsoft and AOL said they support and promote a standard set of technologies that will lead to more secure email. They join banks such as Bank of America and companies like PayPal as they work to create a standard set of technologies that would authenticate the sender and make email more secure. If successful, banks would be able to communicate with customers through email and actually allow customers to click on links to update account information.

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