THE NEED TO STARE BACK

by Steve Brown

It may seem odd, but studies find mimicking the verbal and nonverbal behavior makes strangers like you more and influences their behavior. Mimicry happens in the animal world when one species copies another in appearance, behavior, sound, scent or even location. Animals do this as protection or when chasing a mate in some instances, so maybe we just feel more comfortable when we are mimicked. In the study, when sales clerks were told to mimic verbal expressions and nonverbal behavior of customers, the result was more sales, people were more easily swayed to suggestions to buy products and people gave higher positive evaluations to both the sales clerks and the store. While there might be something here banks can leverage, we still think it is weird when people stare at you with a goofy smile - that said, maybe they were just trying to mimic us. Banks will sometimes mimic each other as well, by chasing yield, waiving prepayment penalties and comparing themselves to peers. We looked at the universe of community banks with assets below $1B and found that certainly appears to be the case. Consider for instance that the average community bank with assets below $1B carries 9% of assets in cash, 22% in securities and 61% in loans. Those assets are funded almost entirely by deposits (94%), of which, the vast majority are interest bearing (83%). Not much else is really going on in banks these days, as wholesale funding has fallen sharply and only supports 3% of assets. No matter how long you stare at the data, if you want to understand banking, it still revolves around taking a deposit and making a loan whenever possible and when not, just parking it in securities until loan demand picks back up. So, if you want to be the same and mimic everyone else, consider that for every near-dollar you raise in deposits, you will invest 61 cents in loans and the rest in cash and securities. Speaking of mimicry, consider the loan portfolio of the very same community bank. Sure, some do things a bit different out there, but basically; community banks are pretty straightforward when they go about building a loan portfolio. Looking at the data, community banks mostly focus on originating real estate loans (74% of the portfolio on average), do some C&I (14%) and have a smattering of farm, consumer and other loans (5%, 5% and 2%, respectively). When it comes to real estate, the average bank in this asset grouping mostly does commercial (43% of the portfolio) and of that, about half is owner occupied and about half is non-owner occupied. After commercial, single family (35%) lending follows closely behind in the real estate category, followed by construction (10%), farmland (8%) and a small amount of multifamily (4%). As for the consumer sector, most banks in this grouping do other loans to individuals (49%) or auto loans (41%). These major chunks are followed by tiny amounts of credit card and other revolving at roughly 10% combined. Perhaps the area least likely to see lending action is in the other category at 2% of the overall portfolio. Here one finds banks dabbling with lending to municipalities, doing lease financing and other lending that doesn't fit anywhere else. We are not here today to discuss which sectors make the most sense and which ones don't. We only point out how interesting it is that so many community banks have mimicked each other and ended up with loan and deposit portfolios that look similar in nature despite operating in so different a geographic footprint. With that said, we now need to go fishing around in the desk drawer for a bowtie so we can wander around bugging our eyes out to see whether or not people try to copy us this morning.

BANK NEWS

OD Settlement

JPMorgan Chase agreed to a $110mm settlement in their FL class action suit that revolved around Chase processed ODs highest-to-lowest instead of chronologically or lowest-to-highest. About 25 other major and regional banks have class action lawsuits outstanding.

Money Funds

The SEC will release a proposal to shore up the money market fund industry. The proposal contains the concept of a capital reserve that would serve to decrease the return of funds and possibly liquidity making bank deposits more competitive.

Corporate Taxes

President Obama will be laying out principles for overhauling the corporate tax code which should gain momentum in the next year. Usually, when the corporate tax code changes, banks are directly impacted for good or for bad (leasing, trust services, real estate, etc.).

January Barometer

For what it is worth, strong equity performance has predicted a positive year in the S&P 89% of the time since 1950. In fact, the market only finished down 3Ys after having a positive Jan. For 2012, Jan. produced gains of 4.4%, and the first since 1997.

Debt

Entities that have lent us the most money and hold the highest percentage of our debt in order are: Federal Reserve/Medicare/Social Security ($6.3T); China ($1.1T); GSEs/Brokers/individuals, etc. ($1.1T); Japan ($1.04T); Pension Funds ($842.2B); Mutual Funds ($653.5B) and State/local Gov'ts ($484.4B).