BRAIN OF A BANKER AND SMALL GROUP THINK

by Steve Brown

A weird study by neuroscientists at the Virginia Tech Carillion Research Institute found working in small groups can lower the IQ of susceptible people within the group. Researchers say peer pressure, social status and other social feedback all appear to have a significant impact. Before getting too carried away, though, we remind our readers that the IQ really just describes a test score that rates the subject's cognitive ability vs. the general population. One could argue that bankers probably are in the only industry right now that doesn't need fancy research to point out the impact stress can have on your intelligence it goes on for too long. Consider that the entire grey matter of the industry has changed since this crisis began. These days, regulators have publically stated they expect directors to challenge management, understand the bank risk appetite, strategy, internal controls and question where the bank is heading. That is great, but we have heard many community bankers question the logic as well. After all, consider a banker standing in the operating room asking a doctor what they are doing with the patient at any given moment and being held responsible if that doctor makes a key mistake. Now, we readily admit that banking isn't as risky as brain surgery, but what does that same doctor on the board of the bank know about the surgery going on in the loan workout group one might wonder? The bottom line is that doesn't really matter much anymore, so directors need to understand expectations are much greater than they were even just a few years ago. Bankers are grappling with many things this year that are challenging even the smartest minds in the room. One of the biggest is where the loan volume is going to come from when the economy is chugging along at only 1.7%. The economic situation remains bleak and recovery is glacially slow. Rates are low so loans are prepaying and new coupons are much lower. Large banks are chasing customers as they try to prop up behemoth balance sheets, so they are coming down-market and stealing the best customers. Meanwhile, funding continues to flood, so the net effect is that margins are getting squeezed. Bankers are scrambling to reinvent the business model, as they deal with volumes of new regulations and a downright unfriendly operating environment. In short, capital requirements are up, profitability is down, stress is up and times remain tough by all standards. To deal with all of these issues, key strategies bankers are employing run the gamut. On the cost front, banks are moving to cut staff, sell branches and otherwise attack the cost base to get it down. After cost containment or reduction strategies, bankers are focused on squeezing the last drop out of deposit or funding costs. Here pricing is already at rock bottom levels, but community banks have 23bp more to go on average to match the funding costs of larger banks. Many are moving on that front to get as much room as possible to support lower asset yields. Nothing comes easy right now, but community bankers are tough as nails and many are capturing market share at the expense of weaker competitors. It may be us or we may have damaged our brains during this crisis, but we foresee a day in the not to distant future when community banking surges back after becoming leaner and more profitability focused. Finally, we close by noting that IQ tests are designed to rank academic progress and measure your ability to understand ideas. They do not measure the quantity of your knowledge, native intelligence, can change dramatically and ignore many other factors considered to be aspects of intelligence. So, if your IQ falls a couple of points when you are with small groups of friends or coworkers, maybe you should just chalk it up to the mysterious brain tapping into a memory of a period in your life (such as middle school), when you were just an awkward kid trying to fit in.

BANK NEWS

Short Sale

According to Moody's, losses for lenders are about 15% lower on short sales of troubled SFR real estate when compared to traditional foreclosure sales. While the discounted loss is greater in short sales, the longer period of legal, taxes, maintenance, carry, insurance, liability and other costs usually result in a greater loss at banks for foreclosures.

Consumer Credit

Consumer credit for Dec. increased 0.8% in December (the 2nd large month over month increase), with about 85% of this increase due to non-revolving credit growth. Non-revolving credit has been increasing significantly since certain student loans started coming directly from the government as part of the health care reform legislation (and are now classified as non-revolving Federal government credit). In addition, auto loans showed strength.

Bank Fraud

The latest analysis of bank fraud finds the leading category remains counterfeit checks which result in 30% of fraud losses.

EMV Upgrade

MasterCard has joined Visa in telling merchants to upgrade systems to handle chip-based EMV cards. To get businesses moving, MC says it will shift liability of fraudulent charges in 2015 to those that have not upgraded their equipment. A handful of banks such as JPMorgan Chase, U.S. Bancorp and Wells Fargo currently offer EMV cards to customers who travel abroad (where EMV is plentiful and magnetic stripe doesn't work very well), so this trend has been coming for some time.

Commercial Growth

For the first time ever, the Mortgage Bankers Association released a forecast of commercial loan growth and put the figure at 17% for 2012 over 2011 for loan originations driven largely by refinancing.