

AMERICAN RECONSTRUCTION - 1Q 2012 RECAP

by [Steve Brown](#)

Today, we kick off our EMC Conference here in S.F. with the theme of reconstructing the bank. The takeaway is that it is going to take plain old American hard work, perseverance and a heavy dose of ingenuity to consistently produce above a 12% ROE. To lay the foundation, we wanted to update where we stand as an industry. We breakdown various metrics according to the following 3 community bank asset sizes: bank asset sizes: (Medium); and \$1B-\$10B (Large). When growth is mentioned, it is qtr over qtr, with all metrics as of the end of 1Q. Earnings: ROE climbed upwards in Q1. Small banks: averaged 6.60% ROE and 0.71% ROA, up 47.7% and 47.9%, respectively; Medium banks: averaged 7.43% ROE and 0.78% ROA, up 44.8% and 47.1%, respectively; Large banks: averaged 8.71% ROE and 1.03% ROA, up 22.7% and 28.0%, respectively. Income: Interest income fell due to loan resets/maturities and competition for Small and Medium banks, while Larger banks saw a slight lift. Small banks: saw average decline of 2.6%; Medium banks: averaged a drop of 1.7%; Large banks: increased 0.19%. Non-interest income, on the other hand, surged among all size banks due to SFR refi fees and SBA loan sales. Small banks: saw growth of 10.3%; Medium banks: surged by 12.8%; Large banks: reported upward movement of 10%. Expense: Interest expense fell significantly in Q1, outpacing the drop in interest income. Small banks: had a decline of 15.8%; Medium banks: an average reduction of 14.7%; Large banks: experienced a drop of 15.4%. While loan workout costs abated, operating costs and incentive comp increased. Non-interest expense moved in the opposite direction for the industry as a whole. Small banks: saw an increase of 0.8%; Medium banks: had a growth of 2.5%; Large banks: realized a jump of 4.3%. Asset Volume & Quality: While asset size increased about 1.5% for all banks, most of the increase was in the investment portfolio (mostly mortgage-backed) and capital accounts. Loan levels reversed their prior course. Small banks: felt a drop of 0.5%; Medium banks: saw a reduction of 0.4% in loan volume; Large banks: only realized a portfolio reduction of 0.2%. Most loan categories fell or stayed the same, with the one notable exception in Large bank C&I lending which increased almost 6%. Asset quality continued to improve as Small bank Texas Ratios fell by 2.6% and the NPA to Asset Ratios fell by 2.9%; Medium banks: witnessed a 3.6% decline in the TR and a 3% reduction in the NPA to Assets; Large banks: welcomed a dramatic 6% drop in TR's as well as 4.2% reduction in the NPA to Assets. The one surprising sector that slightly deteriorated was agriculture lending, which saw its first increase in non-accrual levels in a while. Another point of interest is asset sensitivity increased for the total industry to the most in 20Ys. Liabilities: Deposit levels continued to climb in Q1. Each banking size category saw about a 2.1% increase in liabilities and about a 4.2% increase in core funding. Brokered deposit levels varied, as Small banks reduced Brokered Deposits by 3.7%; Medium banks reported a decline in this instrument of 1.1%; and, Large banks grew Brokered Deposits by 2.2%. Equity: The increase in earnings boosted capital levels. Small banks: reported a growth of Tier-1 capital of 1.7%; Medium banks: Tier-1 capital levels increased by 1.6%; Large banks: saw Under \$500mm (Small); \$500mm-\$1B a upward climb of 2.1%. ALLL levels remained relatively unchanged for all institutions, with ALLL to Loan Ratios as follows: Small and Medium banks: 1.9%; Large banks: 2.1%. If you already subscribe to our quarterly industry updates, the presentation deck with a lot more detail will go out this week. If you have not received it in the past and would like more information about the industry

(perfect for board/shareholder updates), then register by clicking on the Registration link on the bottom right of this page.

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BANK NEWS

Closed (24)

Regulators closed Alabama Trust Bank (\$52mm, AL) and sold it to Southern States Bank (\$213mm, AL). Southern gets 1 branch all of the deposits and essentially all of the assets (no loss share).

JPMorgan

The WSJ is reporting that the loss may widen from \$2B to \$5B as it winds down trading positions.

Branch Closures

Bank of America said it closed 154 branches (51 net after openings) and got rid of 631 ATMs in the 1Q of the year, as the bank continued to squeeze out more efficiency. BofA said it plans to close 750 branches over the next few years, as customers shift to online (the bank has 30mm online customers) and mobile (9.7mm customers).

For Sale

Barclays said it will sell its \$6.1B stake in asset manager BlackRock, as the Bank looks to boost capital.

Small Businesses

A new poll by Wells Fargo of small business owners finds 36% are very or somewhat uncomfortable with their company's debt, while 62% are very or somewhat comfortable with it. In addition, 33% said they have less debt now than they did 12 months ago; 49% said it is extremely difficult to pay down debt and credit needs were low with 38% saying they did not need additional credit and 39% saying they were able to obtain all the credit needed.

European Turmoil

Fitch downgraded its rating on Greece to "CCC" or highly speculative, saying it is "probable" that the country will leave the European Union. The action followed downgrades by Moody's of 16 banks in Spain driven by that country's stresses. Meanwhile, over the weekend, equity prices for major Portuguese banks fell to record lows (worst in 19Ys).

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