

SWIMMING AROUND THE INDUSTRY

by [Steve Brown](#)

A study by the National Science Foundation finds only 8% of finance and insurance companies reported at least one process or product innovation between 2006 and 2008. That compares to 77% of software publishing companies and 45% of pharmaceutical, computer and electronics companies. Bankers still have a long way to go to be considered "cutting edge," but adaptation is occurring faster than some probably expect, so look for this to change and become a much higher percentage in coming years. To more easily adapt, our advice is to stay flexible, be open to change and continue to have a positive attitude along the way.

Speaking of change, you may have felt like a fish out of water lately given the massive flow of regulatory notifications, market volatility and other financial fear and information that has been swimming past. As we subscribe to nearly every thing of any sort out there, we have to tell you we feel more like the fish crammed into the little bowl in the picture above right now. To help keep you in the know, here is what has been swimming around in your banking pond that might help your business.

Profitability: If you wondered what other banks were doing to keep profits flowing during such tough times, certain trends surface when strong performers are analyzed that include: acquisitions; reducing reserves; expanding into wealth management or trust businesses; slowing asset growth; reducing funding costs; expanding into insurance; reducing interest expenses by pushing more depositors into non-interest bearing accounts; reducing wholesale borrowing; eliminating unprofitable branches; selling SBA loans to generate fees and dabbling in FDIC assisted transactions (or buying at a discount).

Regulatory Communication: Believe it or not, regulators want to talk to you as much as you want to talk to them about expectations, what is going on at the bank and general industry trends. Schedule regular visitations, pick up the phone or raise your hand at conferences to get to the bottom of matters that are important to your bank.

Examinations: During an exam, regulators will look closely at recent significant transactions, future plans, concentrations, new products and prior regulatory recommendations to name a few key areas of typical focus. In addition, they want to understand the bank's risk management processes, organizational structure, business lines, market conditions and strategic plans. To help the process, use this opportunity to explain specifically where you stand by CAMELS rating (use PowerPoint and documents) and provide charts and graphs to describe areas that are trending better or worse. Focus throughout on providing clear and factual explanations to help eliminate confusion along the way.

Stress Testing: Yes, you have to do it; but no, you don't have to get as crazy as the largest banks. Whether stress testing the impact to capital of various events (buying a portfolio of loans, dividends, acquisitions, etc.); liquidity (European stresses, the expiration of TAG, etc.); interest rates (ALCO) or credit (concentrations, CRE, etc.) - stress testing is a critical, required and necessary component of prudent bank management. Use it to pre-test new ideas or uncover risks before they surface.

Lending: The sputtering continues, as weak data and turmoil in European and U.S. markets take a toll. As a result, Goldman Sachs cut their Q2 GDP projection to 1.6% (from 1.8%), Bank of America Merrill Lynch cut theirs to 1.9% (from 2.4%) and JPMorgan chopped it to 2.0% (from 2.5%). For those expecting an up-tick in loan activity this quarter, these projections mean it will be more difficult, so expect competition to increase further.

There are many things that can be done to keep your bank moving, but you have to move decisively and sometimes swim away from the rest of the school of fish to find enough to eat.

BANK NEWS

M&A

Community Bank Investors Bancorp (\$11.3B, NJ) will acquire Piraeus Bank S.A.'s Marathon Bank (\$900mm, NY) for \$135mm, or about 1.45x tangible book.

M&A

First Virginia Community Bank (\$275mm, VA) will buy 1st Commonwealth Bank of Virginia (\$57mm, VA) in an all-stock transaction valued at about \$3.7mm.

M&A

First-Citizens Bank & Trust (\$20.8B, NC) has sold its asset-based lending and factoring loan portfolio to Crestmark Bancorp (\$376mm, MI) for an undisclosed sum. First Citizens will continue to offer these services to its customers in partnership with Crestmark.

Greece and Rates

Bankers are closely watching the outcome of the Greek elections this weekend and potential coordinated central bank support that may follow. Analysts predict we could see 10Y Treasury swing on the order of 25bp either way next week (in addition to the G20 Summit and FOMC meeting).

TARP Auction

The Treasury said it received bids totaling \$245mm on its \$281mm investment in seven community banking companies, or about 87 cents on the dollar.

Guilty

Allen Stanford, the former billionaire from Texas that used fraudulent CDs issued by an offshore bank to swindle thousands of investors, was found guilty of 13 felony counts of fraud and conspiracy and sentenced by a federal judge to 110Ys in prison for his \$7B Ponzi scheme.

AIG Repays

The New York Fed reported AIG has fully repaid monies it lent the insurance giant totaling about \$53B. The Fed still owns some investments it acquired from AIG (which it is selling over time) and the Treasury still owns about 60% of AIG common stock (which it has been selling in pieces).

Fraud

A new report from Javelin Strategy finds credit card fraud is up 87% since 2010, but bank detection has also improved, so it is likely to be caught faster.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.