COMMUNITY BANKS ARE OLYMPIANS OF THE INDUSTRY

by Steve Brown

We have always enjoyed the fun and competition of the Olympic Games. To keep you in the know, things kick off officially on Friday with opening ceremonies. A quick perusal of our talented athletes finds some great contenders to take it all that include: Michael Phelps & Ryan Lochte (men's swimming); Missy Franklin, Rebecca Soni & Dana Vollmer (women's swimming); Jordyn Wieber & Gabby Douglas (women's gymnastics); Jake Dalton, Danell Leyva & John Orozco (men's gymnastics); Allyson Felix & Carmelita Jeter (women's track & field); Justin Gatlin, Marquise Goodwin & Tyson Gay (men's track & field); Jenn Suhr (pole vault); women's soccer team (full of returning veterans); Misty May-Treanor & Kerri Walsh-Jennings (beach volleyball); and finally, both men's and women's basketball (these teams are deep). One more interesting Olympic note - research shows the hosting country wins 54% more medals on average than it normally does and can see a positive move in its stock market in the 12 months following the Olympics. No matter how these Olympics go for London, the challenges these athletes face are echoed in similar form in the banking industry - particularly when it comes to broader conditions in Europe. The problem is that while athletes know it is critically important to get to the finish line as soon as possible after the starting gun sounds, Europe's leaders seem more interested in taking a circuitous route instead. Repeatedly, these leaders have approached the crisis overseas on a one by one basis, doling out rescue packages country by country as things become too dire to ignore. This adds vulnerability to the entire system, which the U.S. needs to see recover since about 20% of our exports go to countries in Europe. The longer this issue takes to solve comprehensively, the longer global investors will continue to hide in the safety of Treasuries and the longer our own yields will remain at incredibly low levels. This ongoing slowdown has spread globally and our own economic growth is now anticipated to be somewhere around 1.5% to 1.9% by most of the economic experts. That means loan demand will echo this growth level, so prepare for a long road ahead to once again find decent growth levels, surrounded by heavy competition to hang onto what you have. In the meantime, profitability remains a struggle, so more banks are looking to job cuts, branch closures and more merger activity to rebalance the equation. On balance, banks are finding modest improvement in earnings and have been able to reduce loan loss provisions, but we aren't out of the woods just yet so remain vigilant and adapt as needed to changing conditions as soon as they surface. One critical area where community banks have outperformed over time is remaining focused on the customer. As the industry works to restructure the basic business model, maintaining this approach is critical to success. More and more, bankers have learned that one of the best ways to boost profit and capture customers is to stop selling products and start selling a total relationship. The environment dictates change right now and it is certain that the enormous weight of regulation, combined with customer deleveraging, will weigh on revenues, increase costs and reduce profitability. That is why it makes perfect sense that nearly every bank management team we know is taking a hard look at everything their bank does to try and uncover any areas where changes might deliver incremental results. The good news is that one area that can deliver results may be right in front of you. Consider a hyper focus on your existing customers. Take the time to understand their needs, and then focus on selling them products and services that build the relationship for the long-term. Doing so will not only deliver new opportunities; but it can also improve the customer relationship with your bank by providing a more complete and beneficial experience. As we close today, we wish all of our Olympians the very best over the coming weeks and know that similar to community bankers they will be giving it their all as they drive to succeed.

Related Links:
OCC Bank Accounting Advisory

BANK NEWS

Relief

The SEC clarified loan participation agreements are not swaps, as there was some ambiguity under Dodd-Frank (participations could have been considered a credit derivative due to the transfer of risk).

Stirring It Up

Former Citigroup officials were in rare form yesterday. First, ex-CEO Sandy Weill, said big banks should be broken up (ironic considering his history) and that Glass- Steagall should be brought back. Then, the former head of M&A for Citigroup predicted 2,000 community banks will look to sell over the next 4Ys because of low or negative returns. He warned these banks to sell early, as pricing will decline due to higher capital standards and compressing margins.

Accounting Help

The OCC released an update to its Bank Accounting Advisory series that includes clarification on accounting for acquired loans, OREO, TDRs, nonaccurals, ALLL, insurance claims and other hot topics. The Advisory can be found by following the link in our Related Links section below.

FHA Study

A NY Fed study concludes that more than 30% of FHA loans made from 2007 through 2009 will be delinquent within 5Ys and that the risk (and reserves) by the agency is underestimated.