

LEARN ABOUT NATIONAL C&I LOANS

by [Steve Brown](#)

It is frequently difficult to conclude if a certain phenomenon is the manifestation of a cyclical change or the result of more permanent changes in the market. Scientists continue to debate about the weather events that have occurred in the U.S. Are these extremes in climate conditions the result of global warming, or simply the variability caused by Mother Nature? The FOMC is struggling with a similar conundrum. Is the high unemployment rate of over 8% a structural shift in the economy, or simply a reflection of post-recession cyclical change? The concern is that after almost four years of zero-based interest rates and \$2T of balance sheet expansion, the economy is growing at sub 2%. Some argue that the poor performance is the result not of a cyclical variation, but a structural and more permanent change. One grave concern bankers have today is two fold: 1) loan growth is tepid, and 2) interest rates are low and expected to stay low for at least the next 18 months. If that were not enough, loan pricing continues to contract faster than funding costs. For banks with assets between \$100mm and \$1B (small banks), the net interest margin (NIM) is now an average of 3.84% (down from 4.41% from 10Ys ago). For banks with assets between \$1B and \$10B (medium banks), the NIM is now an average of 3.97% (down from 4.25% from 10Ys ago). The efficiency ratio for both of these groups of banks has increased to 69% and 60% (for small and medium banks, respectively). As most bankers will agree, it is getting more expensive to operate a bank and this appears to not be cyclical but a more permanent industry change. On loan growth, small banks are now operating at a 72.6% loan-to-deposit (LTD) ratio, and medium banks are operating at 78.7% LTD ratio (substantially below their historical average by almost 10 percentage points). If LTD ratio continues to decline, and overnight returns remain well below funding costs, we are only a few quarters away from industry ROE falling below 5.00%. Bankers question when loan demand will return. When it does, the question remains how successful small and medium banks will be in booking business in the face of competition from larger banks, credit unions, life companies and other entities. Again, some analysts argue that the lack of loan demand is not the result cyclical variation, but a structural and longer-term change. At this juncture it is crucially important for banks to maintain adequate loan volumes and book "sticky" loans. The last position any bank wants to find itself in is on a loan prepayment treadmill. A credit worthy 10Y loan today is almost 5x's more profitable for a bank as a 2Y loan. As a bankers' bank, PCBB has found the same day-to-day challenges in this regard that our community bank customers experience - where to find quality earning assets. Syndicated national loans provide one such solution. To gain more insight into this product, we invite lenders and credit underwriters to any one of our three 45-minute webinars on the subject. We will discuss how PCBB augments loan growth with C&I purchases of this sort and discuss the risks and rewards of such loans. The environment remains challenging for all banks, but this is one possible way an experienced banker can augment weak loan demand with a portion of the loan book. On the webinar we will review criteria for underwriting national C&I credits, cover two specific credits in more depth and discuss some of the parameters you might consider when analyzing C&I loans of this type. We will also explore the advantages of lower underwriting and origination costs.

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BANK NEWS

Branch Purchase

Grand Valley Bank (\$279mm, UT) will buy the Park City, UT branch of Frontier Bank, FSB (\$257mm, UT) for an undisclosed sum.

Regulation

The CFPB released procedures it will use to examine credit bureaus and other consumer reporting companies that represent 94% of the market. The rules cover about 30 companies and take effect Sep. 30.

ABA Super PAC

The ABA will vote on a plan to create a nonprofit that would donate to political action committees and set up a super PAC. The PAC would allow members to anonymously send money to pro-industry candidates and could spend unlimited amounts on TV ads and campaign activities.

Gold Coins

A family that gave 10 rare gold coins to the U.S. mint back in 2003 to have them authenticated instead had them seized. Now, a judge has ruled that gold coins worth \$80mm belong to the U.S. government, ruling they were not removed from the Mint lawfully back in 1933.

Warning

PIMCO's Bill Gross is warning the Fed's actions to cut bond yields in the market to stimulate lending could hurt banks over the longer term and serve to contract lending. He worries borrowing costs are so cheap that banks will stop making loans and be merged out given the difficulty of making a reasonable return on their capital if things go on too long.

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