SEEING BRANCHES CLEARLY

by Steve Brown

Given the ubiquitous nature of technology these days, we bet you are reading this publication on a computer screen this morning. If you are, you might want to know studies say you should limit exposure to computer monitors to about 2 hours per day. This is because researchers have found that when users focus on a screen for longer periods of time, the small muscles in the eyes are contracted. That can lead to blurred vision and eventually cause the eye to lose focus. This is such a large a problem that the Department of Health and Human Services estimates it affects about 200mm workers and contributed to a 66% increase in nearsightedness over the past 25Ys. As with the adoption of the computer, community bankers have experienced many other changes over the past 25Ys years as well. Consider the stalwart branch for instance. Research by FIS, augmented by data from the FDIC finds the average number of transactions per branch for community banks and credit unions has fallen from 10.1 in 2005 to only 6.8 as of the end of 2011. That is a significant decline of 33%. Further, consider that over this same time period, the absolute number of banks and thrifts of all types operating in the industry has declined from 8,843 to 7,245. That is a considerable 18% decline. Taking these two data points together, the data clearly shows community banks are processing far fewer transactions in their branches, despite the fact that there are a fewer number of banks around overall. Over the past 5Ys, people have modified how they do banking. Unfortunately, foot traffic has declined at the same time regulatory costs have risen. Overall, FDIC data finds about 4% of branches hold less than $5mm in deposits; 6% hold between $5mm and $10mm and another 7% hold $10mm to $15mm. At the other end of the spectrum, 29% of branches hold greater than $60mm in deposits each. This is a critically important distinction because analysis shows the cost of the smallest branch is 10x more expensive than the cost of the largest branch. To gain efficiencies and adjust to the lower traffic pattern, banks will need to continue efforts to reduce the size of branches in the network or close underperforming locations altogether. Location is also important. Consider that the FIS analysis found 30% of small offices were located in markets that were either declining or had no forecasted growth over the next 5Ys. That is a tough situation and one that is not easily corrected. Selling or downsizing branches takes time, but if the marketplace is dictating it, what choice does a prudent executive team really have. Given all the customer and industry changes, it is time to take a hard look at branch performance to see where sales training can be improved, branches can be changed or some even closed to improve overall performance. Finally, consider analysis that looked at operating cost as a percent of deposit balances. The data shows it costs between 1.05% and 1.52% for most community banks to cover their deposit costs (as a percent of balances). Given securities yields are in the 1% range right now and loan competition is extreme, this is tough and points to the need to continue to work down funding costs, aggressively train staff to sell and to lock in the best customers for an extended period of time to allow for an extended time to cross sell (and reduce acquisition costs). Whether you are worried about weakening your eyesight or not, you might want to consider upgrading employees to a wide screen monitor. Studies show doing so can improve productivity by an extra 76 work days per year per worker, as it cuts the average time it takes to complete tasks by about 30%. As you seek to improve the bank and reduce costs to gain flexibility, perhaps this too is something to consider.

BANK NEWS

Lawsuit

The top federal prosecutor in NY has filed a lawsuit against Bank of America for $1B related to issues around loans generated by Countrywide from 2007. The suit alleges BofA has not repurchased soured mortgages from FHLMC and FNMA; and fraudulently manipulated and concealed data related to home mortgages sold to the GSEs.

C&I Loans

The latest Fed data shows C&I loans grew at a 1.4% seasonally adjusted annual rate in Sept, the weakest level since 2010.

Fiscal Cliff

Executives of 80 large U.S. corporations have posted a letter on the WSJ website, urging Congress to get together to fix the debt problem and reach a deal on deficit reduction by the end f the year.

Housing

The sector has contributed 0.3% to 1H 2012 GDP and it is expected to add a similar amount in the 2H of the year. That is good news when you consider it weighed negatively on GDP from 2006-2010.

Loan Growth

U.S. Bank told its investors on its 3Q earnings call to expect sequential loan growth of 4% to 6%, primarily due to reduced customer comfort and increased uncertainty.

At Home

Research by Pew finds 30% of Americans ages 25 to 34 live with their parents or have done so in recent years.