When The Cicada Sang to Bankers in 1996

by Steve Brown

Especially if you live in the eastern US, you will no doubt have been waiting with bated breath for the emergence of the descendents of long absent insect friends to arrive. This is the time for the every 17Y occurrence of the singing and breeding season of the cicada. The media has been abuzz with the story and many areas of the country are right now in the middle of their own cicada party. What the cicada's parents told them to expect upon their emergence into the world, they will find to not be terribly useful, however.

Here's what Ma and Pa Cicada were thinking about back in 1996...everyone was learning the Macarena, Seinfeld was still on TV, the Spice Girls were spicy and Tickle Me Elmo was giggling over being the hottest toy. It was the year of Prince Charles' and Princess Di's divorce, the DVD was a new invention, the world had 5.8B people, Bill Clinton was President, the Yankees won the World Series and Atlanta hosted the summer Olympics.

Today the world has over 7B people and the US population is around 314mm (in 1996, US population was 269 million). US GDP growth was around 3.8% in 1996 and the latest print was only 1.8%. The US unemployment rate was 5.4% and now stands at 7.6%. Life expectancy in the US was 76Ys and is now 79Ys. For the cicada, that life expectancy is 2 to 4 weeks.

In the banking world back then, things were different too. The 1Y Treasury was yielding 5.50% and the 10Y was yielding 6.70%. The Fed had just dropped the Fed Funds rate to 5.25%, though it would raise the rate to 5.50% in early 1997. CPI was at 2.8% in 1996 (a little surprising given the level of interest rates) and it is currently at 1.1%.

In 1996, there were also 11,480 banking institutions per the FDIC vs. 7,028 today. Back in 1996 there were actually fewer banking employees at only 1.7mm vs. 2.1mm today. Total assets in banking institutions in 1996 totaled $5.6T vs. $14.4T now.

The number of unprofitable institutions in 1996 was 5.6% and that number is now 8.4%. Here is a statistic that will cause some pain to bankers searching for return - the yield on earning assets was 8.11% in 1996 and it is now 3.72%. However, the cost of funds for the industry rested at 4.04% in 1996 and it is now only 0.45%. Thus, the decline in NIM is not as much as one might think. NIM has fallen from 4.06% in 1996 to 3.27% now. ROE averaged 13.31% back then and is now 9.95%. The efficiency ratio 61.49% in 1996 and now rests at 58.92%.

How about all those delayed earnings banks have stuffed into ALLL? Back then, the loan loss allowance to loans was 1.74% and is now 2.03%. However, the loss allowance to noncurrent loans is hugely different, declining from 159% then to 59% now. Non-current assets and OREO was 0.81% and is now 2.08%. Net loans and leases were 113% to deposits vs. only 89% now.

That is a whole lot of numbers, but we thought it would be fun to take a quick look back into history to see what has transpired over the years the last time those crazy cicada's showed up to party around this great country of ours. Enjoy their songs for now and know they won't be back for another 17Ys or so when we will check in again on the banking industry to see what else has changed besides their tune.

BANK NEWS

Redemptions

TrimTabs Investment Research finds US bond mutual funds and ETFs saw record monthly redemptions of $61.7B through June 24 (vs. the prior record of $41.8B set in Oct. 2008).

Mobile Payments

Gartner predicts worldwide mobile payment transaction values will jump 44% this year to $235.4B and will average 35% annual growth through 2017. By category, money transfers are expected to account for 71% of total transaction value this year, followed by merchandise purchases (21%) and bill payments (5% by 2017).

Customer Mobility

A study by Jumio and Harris Interactive of consumer usage of mobile services finds 69% of people surveyed say they would store personal payment information online more often if they felt confident the information was secure; 48% said they use mobile devices to check account status or balances and 34% have made a retail purchase using a mobile device.

Millenials

A Wells Fargo survey finds 54% of millennials (22 to 32Ys old) say debt is their biggest financial concern right now and 42% say it is overwhelming. In addition, 51% say they had not yet begun to save any money, 64% said they financed school using student loans (about 46% worked their way through school) and 52% said they are skeptical in the stock market as a place to invest for retirement.

HELOC Shock

Moody's reports HELOCs may see a surge in delinquencies in a few years, as interest only loans issued during the credit crisis with weak underwriting standards switch to principle due beginning in 2015 to 2017.

Insurance Risk

The *Wall Street Journal* reports a new report from Moody's finds US life insurers could lose billions due to miscalculations about the number of customers who would exercise lifetime income guarantees sold with variable annuities.

CEOs

Research by Booz & Company finds 30% of incoming CEOs in planned succession situations at companies came from the outside vs. only 18% average for the prior 3Y period.

IT Budgets

Studies find mobile payments development now consumes 23% of bank IT budgets.

Outsourcing

A survey of bank technology professionals finds 64% say their companies outsource.

Digital v. Branch

Banking consultant Brett King predicts in the next 3Ys, the average retail banking customer will have 300 digital interactions for every 1 in the branch.