Hip Hop Turns 20

by Steve Brown

In the 1990s, there was a major musical trend underway with artists like Ice-T coming into the national consciousness. It was also during this time that Ice Cube made his name when his album The Predator highlighted the South Los Angeles riots with no small amount of controversy. It seemed back then that audible rage was the basis for a musical movement and boy has Hip Hop grown over time. This year Hip Hop celebrates the 20th anniversary of what many consider its most creative time (around 1994). As today's biggest names tip their hats to this musical era with anniversary concerts and album tributes, it is interesting to consider how mainstream Hip Hop has become.

Given enough time, almost everything becomes embedded enough in our culture that it becomes commonplace. In banking, Fed Funds rates have been at rock bottom for so long that it's an effort to remember anything different. For Fed Funds, there has been a lot of difficulty determining whether this trend has truly become the new normal or if it is simply a gyration in a cycle that will eventually move back towards the norm. Most bankers likely assume a more normal interest rate environment will ultimately return and Fed funds will eventually rise.

Looking backward, one thing pre-crisis that repeatedly saved banks was growth in assets. After all, banking is a leverage business so building assets means more money and more opportunity when handled properly. Looking forward, as the economy builds strength there are broad hopes of a return to those times. If we quickly analyze the recent rate of asset growth, we find the long-term trends show not only loan growth to be declining but asset size overall to be shrinking. In fact, the asset growth rate for all U.S. banks peaked in Q1 of 2008 at around 10% and has been declining steadily since. The median rate went below zero in Q2 in the last three years and the overall trend line remains on a downward slope. If we look at median loan growth rates for all banks in the country, they have mostly been less than 0% since Q1 of 2009. What gives?

Well, with changing trends as to how customers access financial services, even with economic recovery it is difficult to think asset growth rates will return to pre-crisis levels. As such, banks must adapt to a "new normal" model of lower growth. To boost profitability, cutting operating expenses is a nice goal, but most banks have already done what is easily possible. One area that remains that banks often overlook (probably because they feel they have already done everything that is possible) is with their funding costs. To get success, an unwavering focus and diligence is needed.

At this point, many banks have lower deposit costs now than ever in their history, so it makes sense that reducing funding costs is probably not the most obvious place to look when trying to increase NIM. However, you might be interested to know that banks with the lowest cost of funds (B of A, Wells, etc.) continue to reduce their cost of funds. If your bank does not, you are at risk of falling further behind in every aspect of the business. It may not be sexy, but something so simple and obvious can make a great deal of sense and deliver impact.

Today, customers are less sensitive about deposit rates and probably will remain so for awhile. This moment gives banks an opportunity to proactively address the root causes both good and bad that drive the banks funding cost. PCBB's Liability Coach service can assist your bank in finding the causes, building on the good and replacing those that are less effective.

Record labels 20Ys ago probably realized they could not ignore the growing popularity of Hip Hop and many adapted. Those who did are now ecstatic because the genre drives the majority of music sales. In a similar fashion, banks that find savings in their funding costs may well find the new sound that can boost bank profitability even as the industry adjusts to the next new normal.

BANK NEWS

Branch Closures

Bay Bank ($430mm, MD) said it closed 3 branches in a move to reduce operating expenses.

More Branches

In an odd twist, Wells Fargo and JPMorgan Chase announced they will open new branches in FL. Wells already has 200 branches in the state and JPMorgan has 175.

Competition

PNC Bank is reportedly testing issuing debit cards to customers through ATMs.

Smoking

FinCEN reports that based on suspicious activity reports, 105 financial institutions are banking marijuana-related business operations.

Fined

The CFPB has fined Amerisave Mortgage Corp. $20.8mm ($4.5mm in penalties and $14.8mm in customer refunds plus owner will pay $1.5mm) for allegedly using deceptive advertising, then hitting consumers with costly upfront fees and illegally overcharging for services from an undisclosed affiliate entity.

Municipal Fraud

The SEC filed fraud charges against the state of KS related to bonds it issued in 2009 and 2010, saying the state failed to adequately disclose multibillion dollar pension liabilities that added risk for investors. KS agreed to settle the case and adopt new policies but did not pay any penalties or fines related to the matter.

Loan Servicing

Ocwen Financial, the largest nonbank mortgage servicer warned investors not to rely on its financial statements for last year, as material weaknesses exist in accounting controls (related to how it accounted for the sale of certain mortgage-servicing rights).

More Jobs

The Labor Department reports the number of job openings across the country reached a 13Y high in June.