



PCBB's Conference Kicks Off

by [Steve Brown](#)

We are reporting from San Francisco at the historic and beautiful Palace Hotel where we have gathered with friends old and new for the annual PCBB Executive Management Conference. We have held the EMC at this great venue for a number of years and we began last evening with a cocktail reception. It was exciting to meet bankers from around the country who are new to our conference, in many cases people who we have spoken to on the phone and finally got to meet. There are also numerous bankers who come every year and we found them to say hello and catch up on how business is going in their markets.

For both old and new attendees, many report that the economy in general is picking up. This is especially true for our CA banker friends who do business around Los Angeles and San Francisco. There is also momentum on the East Coast, though everyone sees momentum backing off a bit from the end of 2014. True to its name, the middle part of the country is middle way between the east and west coasts as to loan growth it would seem (although agriculture is still booming). Overall, competition for loans is making most bankers a little nervous as it has driven down yields to the point that there is concern whether banks can be fully compensated for the risk they are taking on at current rates. As much as banks would like to resist the downward pricing spiral, the result of refusing to do so mostly means losing business. Careful measurement of risk and the development of broader customer relationships seem key to success for banks regardless of their location.

One bank had recently acquired another and we asked them how it had gone (from the original intent driving the purchase to the integration of customers and data). The acquired bank had never recovered from credit problems during the crisis and had essentially been operating with difficulty for an extended time. The acquiring bank meanwhile was mostly looking for deposits and market share in a town where they already had a branch, but they felt there was potential for significantly more business. The acquiring bank took only a portion of the loan portfolio avoiding long workouts. The primary objective was to acquire quality deposits. Integration with customers was smooth and there was mostly no net loss of business. Integration of data was more difficult, and not so much because of problems between core providers, but more that the data in the acquired bank was incomplete, not standardized between customers and didn't accurately describe collateral properties, cash flows and other aspects of commercial loans in the portfolio. One could wonder if the bank's problems during the crisis could be attributed at least in part, to poor data management and analysis.

One banker from the Midwest noted some slowing in manufacturing, which they attributed to the increasing strength of the US dollar which has affected exporting companies. The bank's market is in an industrial area with a number of smaller companies that manufacture automotive-related products. While the resurgence of the US auto manufacturers continues, the purchase and manufacture of outside parts is price driven and the dollar's strength has made parts producers less competitive.

The final topic on everyone's mind is impending short-term interest rate increases by the Fed. Six months ago, it was a foregone conclusion that the Fed would begin to raise rates in June of this year. Now with numerous indicators showing a decline in economic momentum, this timing looks less sure. Most agree that the Fed would like to get rates off zero and is likely to act in 2015, but the timing looks like it may be later in the year. Further, attendees felt rate increases would be incremental and over a period of time, and that the Fed may not raise rates too much in the end. There is a meeting of the Fed this week with a new policy statement to be released on Wednesday. While it is not a meeting with updated economic projections charts or a press conference, added nuance to the policy statement language may offer some information into the Fed's thinking.

We will report further from the conference tomorrow. On today's schedule we have an expert on cyber risk from the Secret Service, contributions from two major banking accounting firms speaking on compliance and much more. Stay tuned.

BANK NEWS

M&A Activity

1) Heritage Bank of Commerce (\$1.6B, CA) will acquire Focus Business Bank (\$391mm, CA) for \$54.8mm in stock or roughly 1.7x tangible book.

Lawsuit

The DOJ has filed a lawsuit against Quicken Loans (3rd largest mortgage lender), for allegedly submitting substandard underwriting that resulted in hundreds of improperly written FHA loans. The DOJ accuses Quicken of encouraging employees to ignore FHA rules and inflating home values to meet certain criteria.

Biggest Bank

The Industrial & Commercial Bank of China overtook Wells Fargo as the world's most valuable bank. Its market capitalization jumped to \$315B (about 11% > Wells).

Low NIM

FDIC data shows banks with \$10B+ in assets had a net interest margin of 2.97% at the end of 2014, the lowest in nearly 25Ys.

Game Changer

The Wall Street Journal reports Google has announced it will launch a wireless service that will allow customers to pay only for the amount of data they use each month. Google's move into wireless will reportedly run on the networks of Sprint and T-Mobile and use Wi-Fi networks to route phone calls and data. We wonder the impact on banks.

Housing Costs

Bloomberg reports the CEO of American Homes 4 Rent says single family rents could rise up to 5.7% this year.

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