Time Is Passing

by Steve Brown

There is an old joke about time that we modify here for bankers. Why did the banker put a clock under their desk? They wanted to work overtime. While that is a sad joke at some level, perhaps some of you cracked at least a bit of a smile to start your day. Speaking of time, we take a look today at what happened last year in banking from the perspective of the latest financial data.

We did some analysis using Q4 data recently released by the FDIC to give community bankers more insight. The FDIC headlines pointed out that the banking industry had another largely positive quarter, but continued to face challenges. To see what the story was with community banks, we compared what is happening at institutions with assets under $1B (community banks) with their larger asset sized counterparts. What follows are specific areas of importance we thought you might find interesting.

Looking at the income statement and balance sheet at the highest level, we see the FDIC reports full-year earnings for the banking industry climbed 4.9% compared to full-year 2015, while total assets increased 5.1%. This compares to community banks that saw net operating income decline 1.0% as assets declined 2.6% YOY.

Going deeper into the moving pieces of the income statement, we find line items that had a positive YOY impact on community bank performance were: securities gains (+14.8%), loan loss provisions (+14.5%), net charge offs (-10.1%), fiduciary activities (+9.8%) and premises/equipment expense (-6.1%). On the flip side of things, line items that had a negative YOY impact on performance for this group were: service charges on deposit accounts (-6.3%), total interest income (-2.0%) and total non-interest income (-1.5%).

As for the balance sheet, the line items on the asset side that community banks saw decline the most YOY by volume were: securities (-6.9%), loans and leases (-0.8%), Cash and due from (-3.9%), other real estate owned (-25.2%) and bank premises/fixed assets (-4.8%). Meanwhile, the line items on the liability side that declined the most by volume were: domestic deposits (-2.2%), total deposits (-2.2%), interest bearing deposits (-2.7%), other borrowed funds (-5.5%) and Federal funds purchased (-8.8%). Also of note, not one of the call report line items reported for assets, liabilities or capital saw a positive increase during the year.

After exploring the data on the loan portfolios of community banks we find the following YOY changes of note: net loans and leases declined 0.8% YOY and the allowance fell 4.3%. Community banks were able to largely hold the line on real estate loans (-0.4%), as the largest volume growth was found in farmland (+4.9%), construction and land development (+3.3%), 1-4 family residential construction (+6.9%), other non-farm non-residential (+0.7%) and multifamily residential real estate (+1.4%). Meanwhile, lending sectors that saw the biggest declines YOY by volume in order were: 1-4 family residential (-2.1%), commercial and industrial (-2.6%), commercial real estate owner-occupied (-2.3%), commercial real estate (-0.7%) and farm loans (-2.4%).

Finally, in looking at other data points, as well as performance and condition ratios for community banks, we find: the overall number of institutions declined by 302 during the year or -5.5%. The net interest margin on average increased 3bp or 0.7% YOY, as yields increased 3bp while funding costs remained flat. The average ROA was 1.00% and ROE was 8.28%, both of which increased (+4.7% and +2.5%, respectively). Community banks also saw some improvement in the efficiency ratio, which was 71.8% at the end of the year for an improvement of 1.2% YOY. The net loan to deposit ratio climbed to 74.8% on average, resulting in a +1.4% increase for the year.

No matter how you interpret this data, community bankers continue to fight the fight every day and we wish you all well as you do so. In the meantime, we hope this at least helped add some clarity around how things changed from a broader perspective last year vs. the prior one.

BANK NEWS

Competition

JPMorgan (NY) said it will acquire the payments technology of MCX, as it seeks to boost its mobile and digital wallet apps. MCX is a network of the biggest retailers in the US.

Another Wells

CBS News reports Toronto-Dominion Bank employees say they were pressured to hit sales goals so much that they acted against the interest of consumers and sometimes even broke laws. This group of employees said they did so to hit quarterly sales goals because they were afraid of being fired if they did not. Look for regulators to jump on this given it is the second such story after the one about Wells, as to closely review sales and compensation practices.

Credit Changes

FICO, Equifax, Experian and TransUnion have all said they will revamp their credit scores and will change how tax liens and civil judgments are handled. As such, credit rating agencies expect millions of US consumers to see a higher score.

Rate Hikes

JPMorgan projects the median FOMC participant will look for 4 rate hikes this year (vs. 3 projected in Dec.) and another 3 to 4 next year.

Car Crash

Bloomberg reports losses in subprime auto lending reached 9.1% in Jan vs. 8.5% in Dec and 7.9% in Jan of the prior year. The number is the ugliest in 7Ys.