

## Partnering Carefully

by [Steve Brown](#)

The popular children's television program Sesame Street has long been known for its efforts to promote diversity, inclusiveness and acceptance. That is why it probably came as a shock to the nonprofit organization behind the show when fans came out in force to denounce its announced partnership with advocacy organization, Autism Speaks. Protesters have several beefs against this group and there's even a Facebook page dedicated to its boycott. Regardless of where one stands in this debate, we genuinely hope that support for both Sesame Street and the autistic community continues to gain traction. The controversy does illustrate the risk of partnerships, even those with the best of intentions.

We're also big believers that banks should be at the forefront when it comes to supporting worthwhile community initiatives and many community banks do just that. That is why we read with great interest a recent speech by SBA Administrator Maria Contreras-Sweet about the agency's latest efforts to try and jumpstart minority lending.

The SBA is responding to a trend that's become obvious over the last several years. Since the mid-2000s, the number of business loans under \$150K guaranteed by the SBA each year has fallen from roughly 80,000 to 24,000, according to a recent report by the Institute for Local Self-Reliance. Meanwhile, the SBA's average loan size has more than doubled to \$362K.

It appears that really tiny companies, start-ups, and businesses (mostly owned by women and minorities according to the data), are being disproportionately impacted by this trend. SBA data shows, for instance, that 4 out of 5 loan applications it receives from Hispanic-American and African-American business owners are for \$150K or less.

To try and balance things a bit more, the SBA is asking banks to be a part of this latest effort. For instance, if a small loan isn't feasible for a given bank, the SBA is asking the bank to partner with a micro or Community Advantage lender to make it happen.

Another way the SBA is trying to encourage more banks to participate in its lending initiatives is by providing a better model by which to measure a borrower's creditworthiness. The SBA says the model, which has been tested and refined for 10+ years, ensures that risk characteristics determine who is deemed creditworthy and who is not.

Finally, the SBA is trying to eliminate some of the arduous paperwork traditionally associated with its loan process. The agency says it is working on an interactive and user-friendly lending platform, called SBA One that will automate document uploading and form generation and allow electronic signatures. The agency expects SBA One to save banks hours of time and thousands of dollars for each general small business loan processed and we hope it does just that.

No matter what you think about the SBA, there can be many good reasons for community banks to get involved with the agency if you aren't already doing so. Community bankers know that small firms make up 99.7% of American employers because many of those businesses are your customers.

No matter your views, partnering with the SBA and other agencies can provide your bank with an opportunity to capture more business and more customers over time. Every government program has its issues, but over the years one could argue the SBA has seemingly done pretty ok with many community banks.

# ECONOMY & RATES

## Yesterday

Treasury yields fell 1bp on worries over fresh Russia-Ukraine tensions.

## Today

Yields are currently up 1bp ahead of the upcoming release of [personal income](#) and personal spending scheduled later on this morning.

Rates As Of: 08/29/2014 07:48AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	0.00	0.00
6M	0.04	0.00	0.00
1Y	0.09	0.00	0.00
2Y	0.50	0.00	0.00
5Y	1.63	0.00	0.00
10Y	2.33	0.00	0.00
30Y	3.07	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

## BANK NEWS

### M&A

Mid Penn Bank (\$719mm, PA) will acquire Miners Bank (\$137mm, PA) for about \$14.5mm in cash and stock.

### Branch Sale

Columbia State Bank (\$7.2B, WA) will sell 3 branches to Sound Community Bank (\$445mm, WA) for a 2.35% premium.

### Branch Consolidation

First Bank (\$3.3B, NC) said it will close and consolidate 10 branches in its network as it adjusts to changing customer banking preferences and reinvests in banking centers serving more customers.

### Hacked

The FBI is reportedly investigating potential cybercrime against JPMorgan and four other major banks by Russian hackers. The hackers reportedly compromised systems and may have stolen account information.

### 2Q Performance

The FDIC reports commercial banks and savings institutions reported aggregate net income of \$40.2B during the quarter (up 5.3% YOY), due primarily to lower loan loss provisions (- 22.4% YOY) and lower noninterest expenses (-1.4% YOY). For the industry on a YOY basis: loans +1.9% (construction +10.2%, C&I +9.5%, consumer +4.3%, home equity -5.6%, single family -0.6%); loan loss reserve -14.0%; OREO -14.5%; deposits +6.6%; loan loss reserve ratio 1.58%. Meanwhile, our quick analysis of community banks < \$1B finds: 0.49% cost of funding (27% higher than larger banks); ROA 0.94%; ROE 8.19%; efficiency ratio 72.5%; loan loss allowance 1.58%, loan to deposit ratio 71%.

### Job Reductions

Compass Bank (\$75B, AL) said it will eliminate assistant branch manager positions at all of its branches as it

seeks to boost efficiency and reduce costs.

### **Fined**

The CFPB has fined the payment processing firm Global Client Solutions (OK) \$7mm to settle charges for illegal fee collection from consumers on behalf of debt settlement firms.

### **Fined**

Goldman Sachs will pay \$3.2B to the FHFA to settle claims it misled FNMA and FHLMC about mortgage securities it sold them between 2005 and 2007.

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