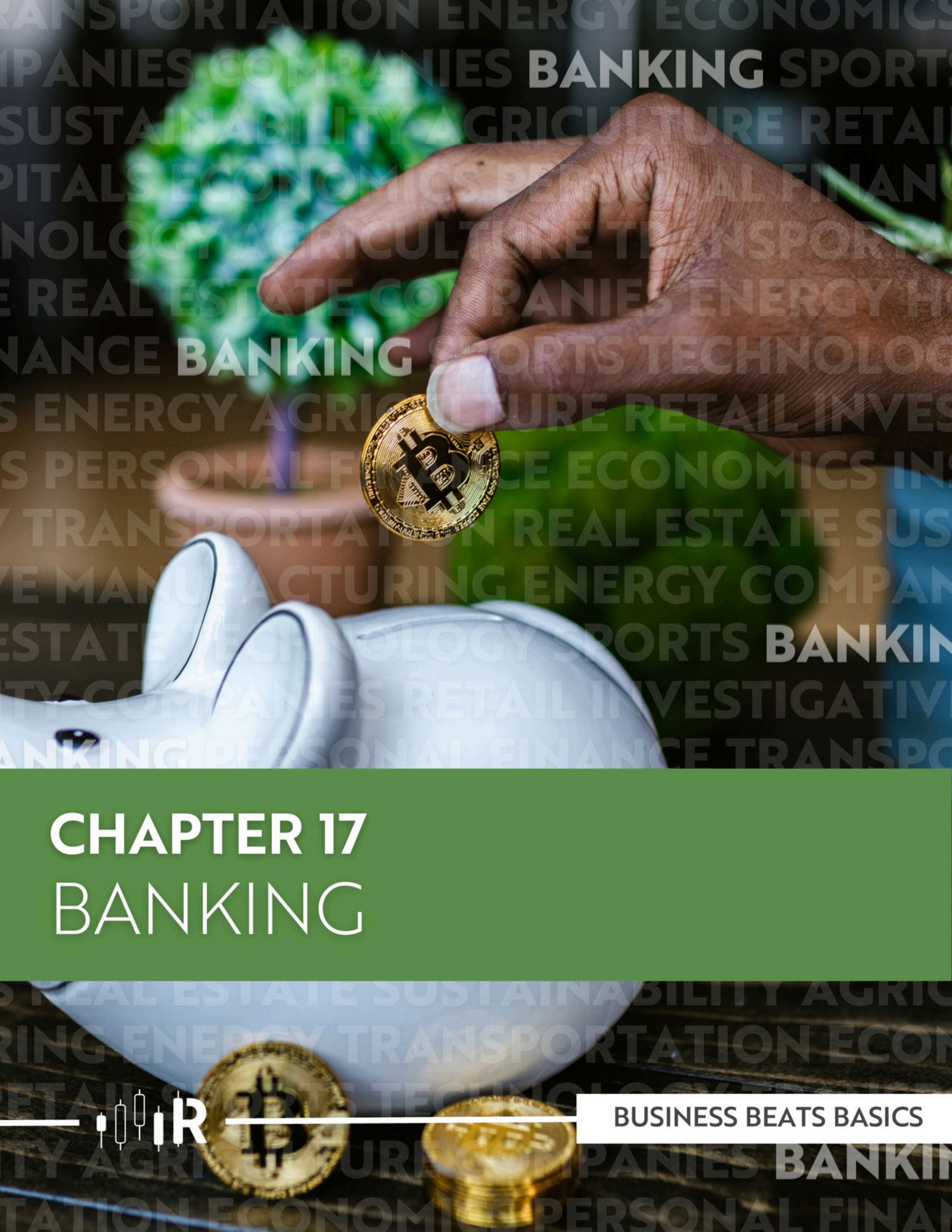


CHAPTER 17
BANKING

BANKING

INTRODUCTION

The investment banks of Wall Street aside, the job of traditional lenders had long been seen as staid and un-newsworthy. That was until banks of all sizes and in practically every geographic market got swept up in the 2008 financial crisis and started failing by the hundreds.

While the sector has stabilized since, and most deposit-taking institutions in the U.S. have ample (or excess) reserves to back deposits, bank failures still happen - one of the most dramatic being the collapse of Silicon Valley Bank in 2023, the second-largest bank failure in U.S. history.

The banking beat encompasses a wide array of topics – some very specific to the industry (like bank regulation or lending trends) and some that involve the sector’s approach to more universal issues, including corporate governance reform, management succession, quirks of accounting, and changes in technology and consumer behavior.

In our lifetime, banking has never been a more political topic than it is now, and it’s a great angle to explore. Banks now have to deal with a much heavier regulatory burden than they did prior to 2008, with higher scrutiny and a host of new rules that have led to higher compliance costs – but that isn’t to say that banks never push back on those regulations.

In the years following the financial crisis of 2008, many banks were expected to shut down, and many did. Small banks, in particular, were hit with compliance costs they couldn’t shoulder and were vulnerable to failures and takeovers. Some bankers spent years playing a game of “extend and pretend” by deferring the risks or costs into the future, hoping that distressed borrowers would recover enough to pay their obligations in full, but that ultimately hurt many bankers, borrowers, and communities.

It can take a while for the economy to recover from financial shocks similar to those in the late 2000s, and the COVID-19 pandemic brought a new wave of trials for the banking industry in 2020 and the subsequent years.

According to the Federal Reserve, 5,231 bank branches closed from March 2020 to July 2021. Many of those banks appeared to be thinning out their physical operations as they began to rely more heavily on digital banking. Indeed, 78% of those branch closures had another branch within half a mile of the closure.

The popularity of digital banking had already been increasing in the years before the pandemic. In fact, the financial crisis indirectly made way for digital banks to emerge, such as Chime (founded in 2012), SoFi (founded in 2011), NuBank (founded in 2013), and Starling Bank (founded in 2014), who pushed traditional banks to offer similar services such as mobile check depositing. The lockdowns and social distancing at the start of the pandemic made these services essential, and reducing physical branches seemed like a logical move for the industry.

From the ever-changing regulatory landscape to the emergence of new banking deserts and fully digital banking companies, there are many angles to explore when covering the banking industry beat. This chapter will help you identify stories in your own community and relate them to your specific audience.

WEBSITES TO KNOW

AMERICAN BANKER

americanbanker.com

For 175 years, American Banker has been the bible of the industry. The website has a wealth of information about all the major issues in the industry: M&A, risk management, regulation, and the like. Unfortunately, you'll find that some of the pieces here are behind a paywall. However, everything at AmericanBanker.com/Magazine is free to all readers! You won't find much breaking news here but there are lots of trend stories and analysis pieces that might help you get a sense of the kinds of conversations taking place in the industry.

BANKSTOCKS

bankstocks.com

Hedge fund operator Thomas Brown, a prominent Wall Street bank industry analyst in the 1990s, teamed up with Commerce Bancorp founder Vernon Hill (a legend in the industry) to create a news and commentary site featuring their own views and those of outside contributors. Warning: both may have conflicts when writing about stocks in which they have positions or eventually take positions, etc. But they offer some interesting commentary on a variety of operational and regulatory issues facing banks.

CONSUMER FINANCIAL PROTECTION BUREAU

consumerfinance.gov/about-us/blog/

This government agency implements and enforces Federal consumer financial law ensuring fair, transparent, and competitive markets for consumers. The agency hosts a blog with regular updates and info for consumers.

WHERE TO BEGIN

Here are several of the key resources, local and national, for the banking industry that you need to know.

MODERN BANKING REGULATIONS

Below are a couple of modern banking laws you should be familiar with as a banking reporter. To learn more about the evolution of banking laws, visit the website of the Federal Deposit Insurance Corporation (FDIC).

Dodd-Frank Act

The omnibus financial reform bill was passed by Congress in July 2010 in response to the 2008 financial crisis. It was named for Chris Dodd and Barney Frank, the respective chairmen at the time of the Senate Banking Committee and House Financial Services Committee. The bill:

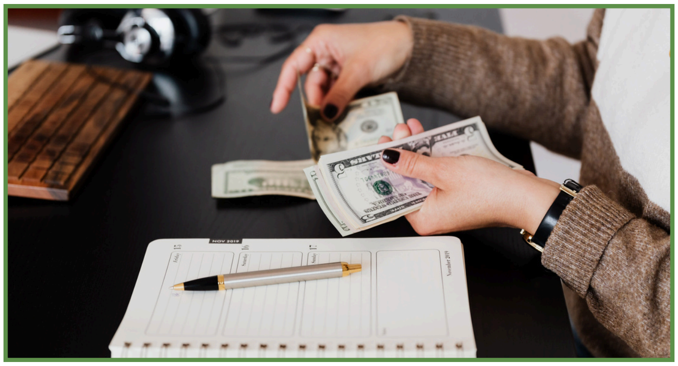
- Established the Consumer Financial Protection Bureau, a new arm of the Federal Reserve.
- Abolished the Office of Thrift Supervision, the regulator for savings and loans.
- Created a Financial Stability Oversight Council, tasking representatives of financial regulators to identify and respond to emerging risks to the financial system.
- Authorized a wind-down process for large institutions that might otherwise have been considered "too big to fail."

Durbin Amendment

A last-minute addition to the Dodd-Frank Act that instructed the Federal Reserve to cap debit card swipe fees (also known as debit interchange). The amendment, sponsored by Illinois Sen. Dick Durbin, was strongly opposed by bankers and their supporters on Capitol Hill, who worried that the fee cap would prevent banks from covering the cost of providing debit interchange services to merchants that accept debit cards. The Fed ultimately set a cap of 21 cents per swipe, plus 0.05% of the transaction amount; this may not allow banks to recoup the full cost of interchange when factoring in costs like fraud protection, but it's higher than the 12-cent cap initially proposed by the Fed.

Anti-Money Laundering Act of 2020

This act amended and expanded the Bank Secrecy Act, providing expanded protections and rewards for whistleblowers. It also established an ownership registration database, implemented by the Financial Crimes Enforcement Network.



AGENCIES

The Federal Deposit Insurance Corp. (FDIC)

This federal agency insures deposits and acts as the receiver for most failed banks. The agency also regulates more than 4,900 banks and savings institutions and is the primary regulator of banks that are chartered by states but choose not to join the Federal Reserve System.

Its website is a treasure trove of data and information, ranging from basic facts about the industry to detailed analysis of banks and sector trends. At FDIC.gov, you can easily find links to the agency's online press room and to the agency's RSS feeds. The "News" section will provide media information and you can find bank data and statistics under the "Analysis" section.

Failed Bank List

The FDIC maintains a list of banks that have failed since October 1, 2000. This list includes the names of banks, their locations, acquirers, and close date. Click on a specific bank on the list for more information, including a link to the FDIC's press release announcing that bank's failure, details about the acquiring institution, and information that customers and claimants would be interested to know.

State Profiles

You can find individual state banking profiles under the Analysis section. In these profiles, you'll find quarterly trends (usually only a few months behind real-time) – including the number of banking institutions in your state, total bank assets, the number of new institutions formed in the past three years, loan loss data, loan concentrations by category (residential real estate, agriculture, etc.), average capital ratios, employment data and so on. You'll also find the largest deposit markets in your state. All of this can be useful as background matter in a story, or it may inspire a trend story on its own.

Office of the Comptroller of the Currency

The OCC charters, regulates, and supervises all national banks and federal savings associations, along with the U.S. divisions of foreign banks. Its oversight can overlap with that of the Federal Reserve. For example, the Federal Reserve is the primary regulator for Citigroup (the holding company for Citibank) and all the other businesses under the Citi umbrella. But the OCC is the primary regulator of the Citibank subsidiary, which is a national chartered bank. The OCC site can be useful, but it's not as robust as what the FDIC offers for covering the banking beat.

The Federal Reserve

This federal agency is responsible for conducting monetary policy (with the twin objectives of stable prices and maximum employment) and is tasked with regulating certain kinds of banking institutions and maintaining the stability of the financial system. Business writers may be accustomed to following the Fed in terms of the macroeconomic environment.

From a banking beat perspective, it's important to know that in addition to setting benchmark interest rates, the Federal Reserve Board and its network of district banks (i.e. the New York Fed, the Atlanta Fed and so forth) has supervisory authority over 900 "state member" banks and 5,000 bank holding companies and – under Dodd-Frank – any financial institutions (even non-banks) that are considered systemically important.

The Federal Reserve site also has information that will be useful to banking reporters (you can see total lending by loan category, etc.), but its biggest strength in terms of data is information on the macroeconomy.

MAKE IT LOCAL

FIND THE LAWYERS

Just about every major law firm will have banking and finance experts who work with institutions on recapitalizations, mergers and acquisitions, regulatory issues, and the like. Lawyers have a direct line to the bankers in your community, and although it's highly unlikely they'll break client confidentiality to help you, they do know the important issues affecting the institutions. They also can be knowledgeable on new regulations, and most likely they harbor strong opinions about the prospects for troubled banks in your region.

CONSULTANTS AND ACCOUNTANTS

These can also be helpful sources. When I started on the banking beat, I asked a banking accountant to walk me through an income statement and a balance sheet so that I could familiarize myself with line items I hadn't encountered on previous beats. Chances are there is someone in your region who would be willing to do the same for you.

TALK TO BORROWERS

Small businesses in your region know when it's harder to get credit. Their experience may indicate that a particular bank in town is in trouble – or that the economy overall is weakening. Maybe you cover other large companies based in your area. As a matter of your non-bank beat reporting, ask the CFOs and treasurers of those companies who they bank with. Or go to a Bloomberg terminal to find the lenders and terms of big loans made to those companies. Know which banks are key in your market.

KNOW YOUR LOCAL REGULATORS

The federal regulators – the Fed, FDIC and OCC – have local offices in many regions. Get to know the people in those offices. State-chartered banks (as opposed to national-chartered banks) also are overseen by state banking regulators, and they can be valuable sources.

BE AWARE OF BANKING DESERTS

When bank branches close, the effects felt by consumers can vary greatly depending on your community. For many consumers, especially those who live in large cities, a branch closure may simply mean they have to travel a little farther to visit a physical branch. In fact, 90% of branch closures at the start of the pandemic had another branch within one mile. However, that other 10% of closures meant that some areas may be left with a banking desert, defined as the absence of a physical bank branch within a specified geographical radius (2 miles for urban areas, 5 miles for suburban areas, and 10 miles for rural areas).

As of 2024, there are over 3,000 banking deserts in the United States. Banking deserts are more likely to occur in underserved, rural, and low-income areas that may already have difficulty accessing financial services, even digital ones. If you report for an area in a current or potential banking desert, keep this in mind as you write for your readers.

DON'T FORGET ABOUT NEOBANKS

When covering the banking beat, don't just consider physical banks in your area as many people are now turning to fully digital banks for their financial needs. According to Statista Market Insights, 52 million people in the U.S. used neobanks in 2023 compared to 13.9 million in 2019. Digital banks are also referred to as "neobanks."

Neobanks are banks that operate completely digital, existing mostly independently of traditional banks without any physical location. Not having physical locations means that neobanks have lower operational costs and are able to pass on those savings to their customers by offering lower fees and interest rates than what traditional banks offer. However, since neobanks are not actually "banks" in the traditional sense, they are not regulated in the same way, and customers may find that their deposits "may not be FDIC-insured." Customers can search if a bank is FDIC-insured – as well as find its primary regulator – by using the BankFind Suite on the FDIC's website.

TRADE GROUPS

Trade groups obviously have their biases, but they can be useful sources of information on all kinds of issues. Groups such as the American Bankers Association (no relation at all to American Banker or American Banker Magazine) are frequently consulted by legislators and regulators on matters of policy, so they often are in the loop on topics reporters would want to ask about, such as economic trends, regulation, political developments and the like.

AMERICAN BANKERS ASSOCIATION

aba.com

Represents banks of all sizes.

INDEPENDENT COMMUNITY BANKERS OF AMERICA

icba.org

Represents smaller institutions.

INSTITUTE OF INTERNATIONAL FINANCE

iif.com

Represents about 400 multinational firms, including some of the world's largest investment banks and commercial banks, along with insurance and investment-management firms.

BANK POLICY INSTITUTE

bpi.com

Was formed when the Financial Services Roundtable merged with The Clearing House in 2018. BPI is a "public policy, research and advocacy group representing the nation's leading banks."

CHALLENGES AND PITFALLS

There are some concepts in banking that can be initially hard to wrap your head around if you are used to covering other businesses. For example, a loan in banking is considered an asset, even though it represents money that the bank has temporarily parted with and might not get paid back in full. In contrast, deposits are considered liabilities, even though they literally represent money in the bank – this is because the money belongs not to the banks, but to the depositors, who can yank the money back out. This is just one of the quirks to covering banking.

Additionally, the income statements and balance sheets for banks can be extremely difficult to interpret, even for business reporters who've spent years looking at financial statements of other kinds of companies. There are several categories and line items that simply don't appear in many places outside of banking. The size of bank financial statements can make it extra intimidating, and deciding what to focus on can be tricky.

The income statement and balance sheet data that is most useful to start with, in general, is net income, revenue, net interest margin, loan-loss provisions/releases, nonperforming assets and net charge-offs, and the Tier 1 risk-based capital ratio. Start by understanding these areas before diving into the full report.

MAKING NUMBERS VISUALLY INTERESTING

Visuals can be tough to come by. Beyond statistical charts and photos of bankers and ATM lobbies, it's tough to be original in your visual presentations. But that makes it all the more crucial to find something unique. I try to think about what's easy for readers. Instead of looking at a dull chart showing bank merger data, would it be more interesting to make a map and show the number of bank deals that have occurred in each state or region?

MAKING CONNECTIONS

Sources can be challenging to cultivate, but no more so than in other industries. You'd be hard-pressed to find a regulator or a lawyer willing to whisper the names of banks on the brink of failure; but if you have a general sense of who in your area is healthy and who is in trouble, you can do some deductive reasoning on your own when your friend who works at the front desk of a local hotel reports that a block of rooms has just been taken by a group from the FDIC.

UNDERSTANDING THE REGULATORS

Understanding the U.S. regulatory architecture is tough. Even the experts are baffled by our system – which, compared with the architecture in other developed countries, is very unwieldy. Here's a quick cheat sheet on that:

- State-chartered institutions (those that get their charter from a state banking department) are supervised jointly by their state chartering authority and either the Federal Reserve or the FDIC (The bank can choose.)
- National banks are chartered and supervised by the Office of the Comptroller of the Currency (the OCC), which is a bureau within the Treasury Department. Under the Dodd-Frank Act, much of the work of the Office of the Thrift Supervision, which separately chartered and examined thrifts, has been folded into the OCC (some of the work has been divided among the FDIC and the Fed). Of course, Dodd-Frank also established several new bureaus, so in terms of structure, things are only more confusing than they used to be.
- The Federal Reserve oversees state-chartered banks who choose to be part of the Federal Reserve System. Importantly, the Fed also oversees bank and thrift holding companies (which in turn might own chartered banks overseen by the Fed, FDIC or OCC), and Dodd-Frank gave the Fed supervisory oversight of all systemically important institutions, whether they are banks or non-banks. The definition of what makes a non-bank company systemically important is still being worked out.

BOOKS TO READ

Lords of Finance
by Liaquat Ahamed
(2009)

Senseless Panic
by William Isaac
(2020)

Too Big to Fail
by Andrew Ross Sorkin
(2010)

House of Morgan
by Ron Chernow
(2010)

Crashed: How a Decade of Financial Crisis Changed the World
by Adam Tooze
(2018)

Banking On It
by Anne Boden
(2022)

TERMS TO KNOW

This is a list of some of the key terms you will come across frequently.

Asset

Anything on the balance sheet with value to the company. In banking, this includes loans, which can be a little confusing since loans involve money that a bank has departed with for the benefit of a borrower. But because that money is lent out with the expectation that it will return to the balance sheet eventually, it's an asset.

Bank holding company

A company that controls a bank (or several banks) but is not necessarily chartered itself to operate a bank. Bank holding companies are favored because of the relative ease with which they can raise capital, compared to actual banks. They're regulated by the Federal Reserve, although the banks they own may primarily be under the supervision of another agency, such as the OCC or FDIC.

Basel Committee on Banking Supervision

An international forum for bank supervisory authorities. Administered from Basel, Switzerland, the committee sets capital adequacy standards and other guidelines intended to enhance cross-border synchronization of bank regulations.

CAMEL

An acronym for the rating system that federal regulators use for their examinations of banks. Banks are evaluated based on their Capital, Asset quality, Management, Earnings and Liquidity.

Capital

All of the equity in a firm; for banks this generally means common and preferred shares, surplus capital and profits.

Capital markets

Markets where companies or governments can raise long-term funds, i.e. debt and equity. An alternative to bank borrowings for companies that are not self-financed.

Capital ratio

A measure of a bank's financial health. There are many different types of capital ratios. Commonly cited ratios include:

- Tier 1 capital ratio, Tier 1 capital dividend by risk-adjusted assets.
- Leverage ratio, Tier 1 capital divided by average total consolidated assets.
- Texas ratio, divides nonperforming assets by the sum of tangible common equity and loan-loss provisions.

Certificate of deposit (CD)

A deposit for a specified term that earns interest at a specific rate; CD terms can be as short as one week or longer than 10 years, with interest rates generally rising as the term of deposit increases.

Charter

The legal authorization, granted by a federal and/or state regulatory agency, for a bank to conduct its business. All banks must be chartered. National banks are chartered by the Office of the Comptroller of the Currency (OCC); the Federal Reserve System charters institutions known as state-member banks; and the FDIC charters insured banks; some state-chartered banks are chartered by state regulatory agencies.

Commercial bank

A financial institution that offers a broad range of services, typically including checking and savings accounts, credit cards and business loans; see entry for investment bank to better understand the difference between commercial and investment banks.

Community Reinvestment Act (CRA)

A federal law that requires banks to lend in the areas where they take in deposits; intended to spur investment in poor communities and neutralize biases that might hamper investment in neighborhoods with high concentrations of minorities.

CRE

Bank-speak for "commercial real estate."

Credit risk

The risk that a borrower or counterparty fails to follow through and make good on an obligation.

Credit union

A nonprofit cooperative owned by its users; usually for employees of the same company, or members of the same union, etc. Credit unions get tax benefits that allow them to generally offer lower rates and fees than banks, but credit unions have not been without their problems.

Demand deposit

A deposit that can be withdrawn on demand, without penalty; this usually is a deposit in a checking account. Also known as a DDA, demand deposit account.

Depository institution

An institution that is permitted to take deposits

Enforcement action

A measure taken by a regulator against an institution for a violation of laws, capital rules, unsound practices, etc. May be preceded by an informal action, frequently referred to as a Memorandum of Understanding, or MOU. Formal enforcement actions are available to the public. Visit occ.gov for a database of OCC enforcement actions.

Fannie Mae/Freddie Mac
Government-sponsored enterprises (GSEs) started by the federal government to facilitate financing for housing; Fannie (formally known as the Federal National Mortgage Association) and Freddie (the Federal Home Loan Mortgage Corporation) were put into conservatorship in 2008, when the government stepped in to guarantee the debt of the GSEs.

Federal funds (aka fed funds)
Short-term loans between banks; these funds are not guaranteed by the Fed or the federal government, but are exchanged between banks by transferring balances from the lender's account at its Federal Reserve district bank to the borrower's account at its Federal Reserve district bank.

Interchange fee
The fee that a merchant's bank pays to a customer's bank when the customer uses a debit or credit card to pay for a transaction.

Interest rate risk
The risk that an investment's value will change because of an adverse change in the market rate. This impacts banks more so than other business sectors and is a primary concern for these companies.

Liability
An obligation or debt owed to another party. In banking, this includes deposits.

Loan loss provision
An expense set aside to cover bad loans.

Neobank
A type of bank that operates exclusively through online banking and does not have any physical locations. As they are not traditional banks they are not regulated in the same way and may not be FDIC insured.

Net interest margin (NIM)
The difference between the interest a bank earns on its assets (loans, securities and investments) and the interest it pays out to depositors. Often referred to as NIM, this is a key measurement of a bank's health and is talked about frequently in the context of rising or falling interest rates.

Nonperforming asset/nonperforming loan
An asset (usually a loan) that is in default or otherwise not producing any income for the bank.

Overdraft
The amount by which withdrawals from a checking account exceed funds available in the account. In the aftermath of the credit crisis, the Fed changed the overdraft rules known as "Regulation E" to make overdraft policies more transparent to bank customers.

Payment system
A system that allows for the exchange of debits or credits; the broad term used to describe debit- and credit-card systems.

Private bank
A bank, or division within a bank, that offers personalized services to affluent customers.

Private equity
An investment in equity that is not quoted on a public exchange. Private equity firms have become more entrenched in banking in recent years by acquiring stakes (or in some cases buying companies outright) in distressed-bank situations.

Savings and loans (S&L)
Specialized banks, also known as thrifts, were formed to promote savings and affordable home ownership. The S&L crisis of the 1980s occurred after thrifts were allowed to invest in risky commercial ventures.

Syndicated loans
Loans that are given by a group of banks (but administered by a smaller group of banks or an individual bank). The pooling of credit helps banks to spread risk and helps to support giant funding packages for large borrowers.

Tangible Common Equity (TCE)
A measure of a bank's physical capital. This figure essentially indicates what owners of common stock in a bank would receive in the event of the bank's liquidation. Of course, often what common stockholders receive in the event of liquidation is nothing. TCE was very much in vogue during the 2008 credit crisis, but since then, the fixation on TCE seems to have been replaced with a fixation on Tier 1 capital.

Texas Ratio
A ratio commonly examined for risk of bank failure. The ratio is calculated by dividing nonperforming assets by the sum of tangible common equity and loan-loss provisions. When the ratio approaches 1:1, or 100 percent, the bank often is at or near the tipping point for failure.

Tier 1 Capital
A core measure of a bank's health; this includes equity capital (common shares etc.) and reserves. The ratio of Tier 1 capital to total risk-weighted assets is known as the Tier 1 capital ratio, and it must be at least 6 percent to meet coming regulatory standards. Under new bank regulation rules, what qualified as Tier 1 capital in the past won't necessarily qualify as Tier 1 capital in the future, as regulators are building a stricter interpretation of what counts as Tier 1 capital.

This chapter is based on the "Beats Basics" Banking section, originally published in 2011 and written by Heather Landy, Mary Fricker and Theo Francis.