

Profits Falling, Banks Confront a Leaner Future

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Battered by a weak economy, the nation's biggest banks are cutting jobs, consolidating businesses and scrambling for new sources of income in anticipation of a fundamentally altered financial landscape requiring leaner operations.

Bank executives and analysts had expected a temporary drop in profits in the aftermath of the 2008 financial crisis. But a deeper jolt did not materialize as trillions of dollars in federal aid helped prop up the banks and revive the industry.

Now, however, as government lifelines fade and a second recession seems increasingly possible, banks are finding growth constrained. They are bracing for a slowdown in lending and trading, with higher fees for consumers as well as lower investment returns amid tighter regulations. Profits and revenues are slipping to the levels of 2004 and 2005, before the housing bubble.

"People heard all these things before, but the reality of seeing the numbers is finally sinking in," said John Chrin, a former JPMorgan Chase investment banker and executive in residence at Lehigh University's business school. "It's hard to imagine big institutions achieving their precrisis profitability levels, and even the community and regional banks are faced with the same problems."

A new wave of layoffs is emblematic of this shift as nearly every major bank undertakes a cost-cutting initiative, some with names like Project Compass. UBS has announced 3,500 layoffs, 5 percent of its staff, and Citigroup is quietly cutting dozens of traders. Bank of America could cut as many as 10,000 jobs, or 3.5 percent of its work force. ABN Amro, Barclays, Bank of New York Mellon, Credit Suisse, Goldman Sachs, HSBC, Lloyds, State Street and Wells Fargo have in recent months all announced plans to cut jobs — tens of thousands all told.

Even as they cut payrolls, banks are exploring ways to generate revenue that could translate to higher costs for consumers. Among the possibilities are new fees for automatic

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29-Agosto-2011

deductions from checking accounts that pay utility and cable bills, according to people involved in the discussions.

SunTrust Banks, a major lender in the Southeast, is already charging a \$5 monthly fee to its “everyday checking” customers who use a debit card for purchases or recurring charges. And this fall, Wells Fargo plans to test a \$3 monthly usage fee for new debit card customers in five states, on top of its normal service charges, which are \$5 to \$30 a month. Previously, other big lenders — including Bank of America, Chase and PNC Financial — canceled rewards programs and altered checking account service charges to blunt the effect of rules curbing overdraft and debit card swipe fees.

Banks have been through plenty of boom and bust cycles before. But executives and analysts say this time is different.

Lending, the prime driver of revenue, has been depressed for several years and is not expected to pick up anytime soon, even with historically low interest rates favorable to borrowers. Consumers are spurning debt after a 20-year binge, while businesses are so uncertain about the economy that they are hunkering down, rather than financing expansion plans.

Making matters worse, the Federal Reserve’s pledge to keep rates near zero into 2013 is eating into profit margins earned on mortgages and other loans, as well depressing investment yields that usually offset fallow periods for lending.

Trading profits have also been waning amid a slowdown in volumes, and Wall Street’s once-lucrative mortgage packaging business is unlikely to bring in the blockbuster fees it earned during the housing boom.

On top of that, the [financial regulations](#) enacted by Congress last year are causing banks to add more risk managers and compliance staff — a major outlay for the biggest banks but potentially devastating to small lenders. New rules requiring banks to maintain a bigger cushion of capital to absorb unexpected shocks are also expected to further depress profits.

All of this looms over the industry. To be sure, profits have rebounded from the depths of the financial crisis. All told, the nation’s banks earned \$28.8 billion in the second quarter, nearly 38 percent more than a year ago and about what they earned in 2004, according to

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29-Agosto-2011

Trepp, a financial research firm. But more than one-third of those profits came as banks shifted capital to their bottom line that had been set aside to cover losses.

That helped obscure a 4.4 percent drop in revenue, which fell to \$188 billion, the industry's level in 2005. Trepp analysts project it could fall an additional 4 to 5 percent over the next year.

In response, bankers are turning to the one area that is easiest to control — costs. They have begun programs aimed at cutting operating expenses, which have risen almost 13 percent since 2008. Many involve moving middle- and back-office workers to cheaper locations, redeploying them to understaffed businesses like mortgage servicing or finding ways for computers to replace personnel.

At Wells Fargo, its Project Compass is aiming to simplify its businesses and cut expenses by \$1.5 billion a quarter. Citigroup is in the middle of Project Rainbow, focused on stitching together dozens of disparate computer systems to run on a single network. Bank of America has hired efficiency experts to help it reorganize. And JPMorgan Chase is more than halfway through a five-year plan to save up to \$1.3 billion a year by streamlining its trading operations following its 2008 takeover of Bear Stearns and several prior acquisitions.

Banks are also expected to hold the line on bonuses this year. Compensation for traders could fall 15 to 30 percent, while 2011 pay for investment bankers and commercial bankers is expected to be about the same or slightly less than a year ago, according to new projections by Johnson Associates, a compensation advisory firm.

Industry critics do not find comfort in what they see as still excessive pay or that megabanks like Bank of America and JPMorgan were made even bigger through acquisitions of ailing firms during the crisis. Banks dodged any chance of the government's breaking up the behemoths after the crisis, and now it is the aftershocks and darkening prospects for growth that are forcing them to slim down.

Even as they slim down, banks are applying some of the cost savings to hire new workers and invest in faster-growing parts of their businesses. The biggest source of cost savings, of course, is eliminating jobs, and nationally and in New York the pink slips seem to have picked up in the last few months.

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29-Agosto-2011

Banks and brokerage firms first started layoffs in the fall of 2006. By the time the financial crisis receded three and a half years later, more than 428,000 financial workers had lost their jobs nationwide — an 11 percent drop in the industry's work force, according to Moody's Analytics.

Then, in March 2010, hiring resumed as banks added more than 10,000 workers to cope with new financial regulations and a surge in mortgage foreclosures as well as to prepare for what seemed to be a nascent recovery.

But over the summer, that optimism has faded. Moody's Analytics now projects the industry will lose about 3,500 jobs by the end of the year, bringing employment back to 2000 levels.

“There may be a recognition that hiring levels are just too high,” said Marisa Di Natale, who follows financial industry employment trends for Moody's Analytics. “The trajectory of revenue growth may be lower for quite some time.”