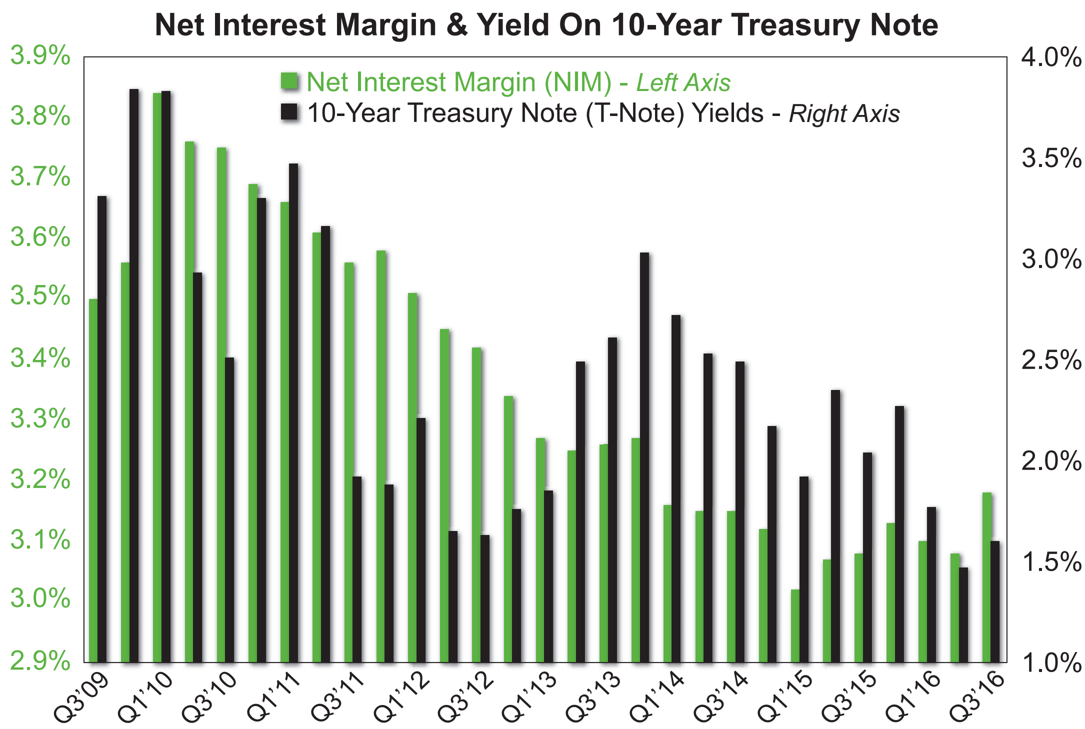
Investors Would Like To See Bank Margins Rise Along With Interest Rates



Sources: Federal Deposit Insurance Corporation and Bloomberg. Data points are quarterly. NIM measures all insured institutions.

View from the Observation Deck

1. For banking institutions, net interest margin (NIM) is essentially the spread between the interest earned from the bank's loan portfolio and the amount of interest the bank pays on its deposits.
2. The time period in the chart captures the current economic recovery in the U.S. through the latest NIM release.
3. From 9/30/09-9/30/16, NIM declined from 3.50% to 3.18% (see chart), but did reach as high as 3.84% in Q1'10. When NIM declines it negatively impacts profits.
4. Over that same period, the yield on the 10-year T-note declined from 3.31% to 1.60% (see chart). It stood at 3.83%, however, at the close of Q1'10, when NIM hit 3.84% (see previous point). The fluctuation in the yield on the 10-year T-note influences the interest rates that banks charge on various loans.
5. With respect to what banks pay on deposits, that is influenced more by the federal funds rate (not shown in chart). That rate was already near zero following the 2008-2009 financial crisis, dropping from 4.25% in Q4'07 to 0.25% in Q4'08, according to Bloomberg. It stood at 0.50% in Q3'16.
6. U.S. Commercial Bank Assets Loans & Leases (SA) stood at a record high $9.07 trillion in Q3'09, compared to $11.36 trillion in U.S. Commercial Bank Deposits, also a record high at the time, according to the Federal Reserve.
7. While banks are lending at record levels in dollar terms, the amount loaned out is down on a percentage basis relative to the size of bank deposits. This indicates that banks have money to lend.
8. As of 9/30/16, the loan-to-deposit ratio was 79.8%, down from 89.2% on 9/30/09. For comparative purposes, as of 9/30/07, the ratio stood at 100.3%.
9. While there is no guarantee that interest rates are going up in the near future, we believe the chances of it happening are rising. Should it occur, NIM has better chance of increasing if intermediate and long-term interest rates rise faster than short-term rates, in our opinion.

This chart is for illustrative purposes only and not indicative of any actual investment.