

LEARNING FROM THE STREETS

by [Steve Brown](#)

In lower Manhattan, there is a donut/coffee cart on wheels that does something different. Unlike the other 400 silver-wheeled carts scattered around the area and the Starbucks 2 doors down, this owner doesn't spend time making change. Hand him a dollar and he simply points to the counter, which has a pile of change laying about. It took some time to figure this one out because as bankers, the thought of having a customer make their own change was a foreign concept to us. What prevents customers from making incorrect change, not paying, or outright stealing? What about the paper trail? This lesson in customer empowerment concluded that what the owner misses in lost revenue from theft and bad math, he makes up for it in other ways. The owner places a higher value on throughput than he does on change accuracy. Judging by a quick comparison to the stand down the block and the coffee house next door, our trusting donut owner was more than 2x more productive. More importantly, it was clear that the owner trusts his customers and in return, they appreciate that sense of trust. This business owner not only was more productive, but has a devoted following. While many businesses talk about trust, few actually put it into practice. When we hear of push back from customers regarding prepayment penalties, fees, submitting updated financial information, deposit rates or other restrictions that banks place on customers, a majority of the time it is due to the contact person not explaining the situation correctly. Like the donut stand, very few customers are really looking to take advantage of a bank and fewer still are out to do a bank harm. In a majority of cases, customer resistance comes from banks not taking the time to educate customers on the situation. Explaining why the bank needs the yield maintenance language in the loan so that it can offer the very best fixed rate or why the bank needs to get updated financials before the regulators walk in will work wonders. Worst yet is when the true message never makes it to the customer, because of push back from within the bank assuming that the request will upset the customer. Learning to better negotiate starts with training employees on how and when to educate the customer. It is natural for people to ask for more, but it is also natural for customers to want to reach a win-win agreement. Taking the time to make the customer your partner can go miles. If it doesn't, while the customer may have better options elsewhere, it also may be that he or she is really not interested in a partnership. When a bond of trust is created between two parties, good things start to happen. Our stand owner is able to serve twice as many customers, people get their coffee in half the time and they enjoy the experience so much they become regulars (further ensuring the owner's profits and stability). Of course this practice won't work on a Starbucks-scale, but then again, the stand owner isn't trying to be the coffee giant. The owner has taken the weakness of his small size and turned it into a strategic advantage. As independent bankers, we are, at times, guilty of following the lead of the large banks and losing sight of our agility. Like the stand owner, finding ways to trust our customers, giving them more flexibility and continuing to innovate, will keep independent banking strong.

BANK NEWS

Acquisition

: U.S. Bank (\$213B, MN) will acquire the municipal and corporate bond trustee business of SunTrust banks, Inc (\$179B, GA) for an undisclosed sum. After completion of the deal, U.S. Bank's corporate trust division will have \$2.5T in assets under administration, and more than 92,000 client issuances.

Credit Outlook

The most recent FDIC Outlook report indicates that credit quality may have peaked and expresses concern over rising loan volumes, current underwriting standards and untested products. The report focuses on CRE, C&I and residential mortgage lending. The report also highlighted that many banks have a strong concentration in CRE lending, compared to the late 80's, as some banks have 700% of their equity in the business, with pronounced growth in recent years.

Fuel Prices

According to the U.S. Energy Department, the average pump price across the country for regular gasoline rose above \$3 a gallon for the first time since hurricane Katrina.

China Raises Reserves

China raised the required reserve to slow down bank lending for the second time in two months in an attempt to slow down a booming economy that grew 11.3% in 2Q. The Chinese government recently said it would stop the 'unsustainable' investment in factories and real estate, which is posing a threat to fuel inflation.

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