

MOM ON YOUR FUTURE

by [Steve Brown](#)

As Mom always says – "Don't be a victim." While harsh, the often used comment was empowering. Events don't happen in isolation and when things don't go your way, you can bellyache about it, or you can be part of the solution. Victims look for blame, point fingers and make excuses. People or organizations that control their destiny, seek to change their environment. However, there are many banks that are victims when it comes to loan pricing. If you fall into this category, you have 3 choices. One, you can architect your bank to compete on price. This can be done by focusing on deposit pricing, controlling growth, becoming more efficient, boosting fee income and increasing leverage. Two, your bank can differentiate itself on service and command a higher margin in the industry despite competition. Increasing marketing spend, building a cohesive brand image, turbo charging training and creating a sales culture that positions your bank more as a consultant than a commodity, are all starting points. Look around your bank and you will likely find that there are a myriad of things that can be done that you are probably not currently extracting value. Do you provide quick turn around time in credit? Can you structure a 15Y fixed rate loan? Can you advise your clients on when to take floors or pay fees in exchange for a lower rate? Instead of a geographic focus, why not a knowledge focus? Many banks pick an industry specialty to extract value. Getting to know the hospitality sector, cash flow lending, 1031 exchanges, home improvement loans or franchisee lending, are all areas that banks can differentiate themselves on knowledge. Independent banks hold themselves out to be flat organizations priding themselves on flexibility. If this is true and you do create value, then charge for it. However, if customer service is just talk, then it may be time to pick another business model. To thrive in banking over the next 5 years, it is clear that bank management is going to have to be on top of their game. This means having a plan and executing against that plan. You have to know who your most profitable customers are and combine them with your most profitable products. Getting your lending staff the training it needs to negotiate loan pricing with the customer in order to turn it into a win-win proposition is a tactical plan that we have not seen fail. For the last 3 years, credit spreads have collapsed to their lowest level in the history of banking and show little signs of abating. Banks must have a well thought out plan to either create an organization that can compete on price, or structure the firm to extract value through defined customer service. Of course, the third alternative is to change nothing and let the winds of change buffet margins. Mom would say this is the surest path to end up a victim.

DEPOSIT RECLASSIFICATION

If your bank is holding reserves at the Fed for transaction accounts, it may be time to reclassify these in order to increase the interest earnings at your bank. Through our proprietary program, your bank will be able to significantly reduce or eliminate its deposit reserve requirement thus providing the Bank with available funds that can be invested to maximize profit. Some of the nation's largest banks have come up with a way to lower required reserves without affecting customer liquidity. This is achieved by reclassifying balances from transaction type accounts into non-transaction accounts. BIG's deposit reclassification product is a complete turnkey solution, which includes the software application, installation, assistance with customer and regulatory disclosures, as well as all necessary training. BIG Reclass is a stand-alone application that does not require any modification to the Bank's core processing system. The software runs on a PC utilizing extract files from the Bank's core

processing system (containing 4 basic fields). This is a fully automated process, and requires very little staff time (as little as 10 minutes per week). Average savings is approximately \$63k per year. To receive a custom proposal showing your bank's potential savings, contact us to get started.

BANK NEWS

Acquisition

RBC Centura Banks (\$20.5B, NC), a wholly owned subsidiary of Royal Bank of Canada will acquire Flag Financial Corp (\$1.8B, GA) for approximately \$456mm, or almost 2x book.

Corporate Earnings

With 84% of the public corporations tallied, it looks like profit margins at U.S. corporations will hit a 40-year high at 12.0%. Earnings growth remains a robust 15%, with a similar pace expected for 3Q.

More Places

The Bureau of Labor Statistics may start publishing its data out to 3 decimal places. At present, rounding errors in items such as CPI and employment, have caused market movement that is disproportional to the actual statistical change.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.