

## YOUR BUDGET AS A COMPETITIVE ADVANTAGE

by [Steve Brown](#)

If your fiscal year and calendar year are the same, then you are about to embark on your budgeting process for 2007. A good budget is more than a collection of numbers; it's a roadmap that can guide your bank to the next level of performance. Unless your bank produces a formal business plan each year (less than 15% of banks formally update their business plan), then next year's budget is really the only document that ties strategic objectives with the present organization in any quantifiable manner. Before starting 2007's budgeting process, the whole organization should spend time evaluating how the bank compared to last year's goals. Reviewing assumptions and results helps management refine the process for the upcoming year and to correct systemic errors. Remember, when it comes to budgeting and forecasting, being over-budget can be just as bad as being under-budget. While counterintuitive, exceeding the budget makes everyone look good, but it can also produce the unintended consequence of missing growth opportunities and inefficiently allocating resources. For example, at the start of 2006, average loan growth for the industry was predicted to be 10%. If a bank intentionally under-forecasted growth of 5%, but produced 10%, then perhaps 15% would actually have been obtainable with the correct staffing and capital in place. Management that is within 10% of their budget (plus or minus) should get an "A+." Those within 15% should receive an "A"; 20% a "B"; 25% a "C" and anything more than 30% variance should require more education on the subject. Bank budgets need to be "owned" by all of senior management, not just the CFO. Each department manager must get away from forecasting a change from the prior year and answer the following questions with regard to each product line: 1) What is the expected economic environment? 2) What products will be expanded, deemphasized or discontinued? 3) What is the expected volume for each product? 4) What is the expected average price point/margin for each product? 5) What is the corresponding market share? and, 6) What expenses/capital need to be utilized to achieve the afore-mentioned goals? While this may seem tedious, it forces each manager to think through all aspects of achieving their goal - the most unheralded aspect of the planning process. Further, the process forces senior management to ensure that each goal is additive to the overall strategic plan and ALCO forecasts. Banks that have not yet set strategic planning goals and targets for next year are wasting everyone's time producing a budget that is separate from the goals of the organization. In short, a good budget is a strategic weapon that brings the whole organization into laser focus. Paying more attention to the budgeting process makes an organization sharper and increases control over its resources.

### BANK NEWS

#### **M&A**

First Busey Corp. (\$2.3B, IL) will acquire Main Street Trust (\$1.5B, IL) for about \$349mm, or 2.56x book.

#### **M&A**

Sterling Bancorp (\$2.0B, NY) will sell its financial services unit for an undisclosed sum in a bid to cut operating expenses. The move will result in a charge of \$8.5mm.

#### **New Regulator**

The FRB has named Roger Cole director of the banking supervision and regulation division. Cole will direct supervision of state member banks and holding companies.

### **Competition**

Given that so many large banks control the credit card market, it is interesting to note that Visa is rolling out a new card specifically targeting small business customers. The card is called Visa Signature Business.

### **Big Banks**

The American Banker is reporting that takeover speculation has surfaced again that Washington Mutual may be acquired by JPMorgan, Citigroup, or Wells Fargo. The paper also reported that JPMorgan might also be a possible buyer of KeyCorp.

### **Extreme Competition**

JPMorgan Chase reports its heightened focus on landing small business customers is succeeding, with over \$22B booked in new business so far this year. Over the past 2 years, the bank has doubled the volume of loans to small business customers.

### **Flopping**

A study of 147 metro areas where house flipping is prevalent finds 20% of homes sold by flippers between April and June lost money. This is the highest number in 2.5 years and the group lost a median of \$39k.

### **Housing**

A study of 317 markets with housing prices deemed to be "overvalued" finds more than 67% of these markets have suffered a price drop during the 2Q. Meanwhile, the overall percentage of markets calculated to be overvalued climbed nearly 16% during the quarter.

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