Strategic Meeting - Finding The Easy Button

by Steve Brown

Finding out what issues companies will face can be as easy as getting a bunch of CEOs in a room and asking questions. Since it is strategic planning season, we have been asking those very questions, reading up on surveys and monitoring the issues independent banks say they are already facing (that appear ready to grow in 2007). As we have reported on, the "Big 3" issues for 2007 are funding, credit quality and workforce recruiting. After that, there is a long host of important issues still in the forefront, some of which are presented here. Healthcare: Long espoused as an issue, no one will probably be shocked to learn that it remains in issue for 2007. We find about 70% of CEOs expect healthcare costs to increase next year. To combat this, 74% indicate they will increase employee deductibles, 72% will increase employee premiums and the same amount expects to set up health savings accounts. Interestingly, over half (54%) of companies expect to change health care providers entirely. Technology: Banks and technology have become practically synonymous over the years, as many have tried to leverage IT in an effort to increase profitability. While IT can run the gamut, bankers considering launching projects should read this section closely. On average, the information suggests CEOs expect to spend more on technology projects, with a full 20% saying they anticipate spending at least 10% more than they did this year. Amazingly, while spending continues, almost 30% of CEOs say technology investment returns fall short of their expectations. It is clear from the data that project returns must be measurable if they are to be successful. Acquisitions: The information suggests that while close to 66% of bankers feel their growth will come organically, 28% expect it will take both M&A and internal growth to achieve goals and objectives (6% said they expected most of their growth to come from M&A alone). Cost management: Overall, most bankers will be using a 3% inflation rate and seem to be building in between a 5% and 10% cost increase for the upcoming year. Profitability: To cover rising costs and keep shareholders happy, most bankers we talked to plan on about 15% growth in earning assets, while generally trying to hold the line on funding costs. On this front, with 3 more rate hikes are still working their way through (from the last FOMC rate increases), bankers should probably expect funding costs to rise by another 6% to 14% from current levels before tapering off. Regulation: A full 92% of bankers say they expect regulation will continue to be a heavy burden in 2007, particularly as the new CRE regulations likely come on-line. Retention: Finally, of we are to talk of budgets, perhaps nothing is more important than employee retention. After all, who is going to execute on these lofty game plans if not the employees. Perhaps that is why the information shows nearly 90% of independent banks say retaining employees is critical and that 57% expect to increase employee education and retention programs in the coming year. There are many factors to consider when pondering strategic direction, but some of the ones outlined above may help bankers find the proverbial "easy button."

Related Links:

FinCen FAQ Guide

BANK NEWS

BSA Guidance

FinCen issued their FAQ guide last week that better explains suspicious activity reporting requirements, the filing process and has a "how-to" section on how to conduct independent reviews of anti-money laundering programs. The report can be found at www.fincen.gov/reg_faqs.html#q22.

Doral Financial

The beleaguered bank ($4.3mm, PR) agreed to pay the SEC $25mm in fines last week for financial misstatements over the value of interest-only securities held in their investment portfolio. In addition to the fine, the Bank said they have paid $3.7mm in fees to auditors last year to help in 5Ys of financial reporting restatements.

Housing

Statistics indicate the mortgage business has fallen from $3.3T at its peak to only $2.5T this year, a 24% drop.

Heavy Competition

Large banks such as BofA, Wachovia, Citibank and others have been aggressively expanding product and service offerings to small to mid-sized businesses over the past year. Offerings include long-term fixed rate loans, enhanced online banking services, account monitoring, online transaction history and direct deposit. Independent banks should note that Wachovia recently reported small business customers doing business with the bank jumped 25% through June, while JPMorgan reported a similar increase. Meanwhile, BofA reported good success in providing unsecured lines of credit for small business customers.