

LEARNING FROM THE ARMY

by [Steve Brown](#)

Despite the Frankincense, Myrrh and Currier & Ives tidings, "Peace On Earth" remained in short supply this weekend. This holiday is a time to say our prayers and well wishes for the U.S. military. More than 400k men and women in our armed services spent the holiday season away from their families and in harms way, many for the 4th year in a row. Anybody that is ready to give his or her life for our country can teach us a few things. Below are 8 well-drilled rules taught by leadership training in the Army. These rules are just as applicable for leading a loan department, as they are for leading the most hardened combat veteran.

- 1) Maintain absolute integrity - The foundation for all leadership; build trust before all else.
- 2) Become an expert at your task - The fastest way to gain respect is to demonstrate the mastery of the nuts and bolts of your job.
- 3) Declare your expectations - Tell everybody where you are going and they will help get you there.
- 4) Show uncommon commitment - If you aren't 100% committed, it will show.
- 5) Expect positive results - Prepare for the worst, but expect the best.
- 6) Take care of your people - Develop a reputation for protecting and supporting your troops and not only will your troops take care of you, but other quality talent will be attracted to you.
- 7) Put duty before self - If your needs come before the mission's needs, you are not leading the mission.
- 8) Lead from the front - You get the most accurate view of the action and there is no better way to prove that you are committed.

COMMERCIAL LOAN VALUE

While we have written about the recent interplay between property values and cash flows for commercial loans, there is another characteristic that is emerging. For loans that have been originated in mid-2006 and after, because of falling property values, prepayments (unscheduled principal) are starting to abate to something closer to the 10Y mean of 10% prepayments per year.

BANK NEWS

Holiday Debt

The first cut at debt from holiday spending is out and is estimated to be \$135B, up 10% from 2005.

Lending Trend

One of the large banks has released information indicating the mix of its customers choosing fixed rate CRE loans is now running at about 70%, compared to a 30% rate for floating rate. Experts say the inverted yield curve is adding pressure and driving much of this shift.

Consumers

A UBS/Gallup survey finds investor optimism is holding steady at its highest levels in 9 months. In addition, 67% of investors feel now is a good time to invest, up from 57% the prior month. Finally, 72% of investors feel housing market softness is hurting the current investment climate.

Ugly

A new study predicts 20% of subprime mortgages (about 2.2mm loans) originated in the past 2 years will eventually go into foreclosure. Subprime loans accounted for over 25% of all loans originated in the first 10 months of this year. The delinquency rate for subprime borrowers is 12.56% as of the 3Q.

Bank Survey

A survey of 100 banks finds 62% report they are having a hard time filling open positions. In addition, 89% said they feel the FOMC should not raise interest rates any further, while 54% believe small businesses are likely to see a negative impact on their companies due to a slowing economy.

Employment

Rice University studied Fortune 500 companies and finds that if more than 50% of analysts downgrade a stock, the CEO is fired within 6 months. Interestingly, if just one analyst downgrades a stock, the CEO has a 40% chance of being fired within a year.

Competition

Banks wondering why large national competitors are so aggressively ramping up the credit card push to small businesses are reminded that only about 3% of such businesses use corporate cards and only 10% of all charges are put on cards.

The Godfather of Soul

James Brown taught us that innovation is the highest level of art. Not only did the man have the most creative groove ever heard, but his conviction was so strong that he once fired his band because they would not live up to his standards. He will be missed.

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