

SIMPLICITY DEFINED

by [Steve Brown](#)

Readers who have been in banking any length of time will remember the simplicity offered by the adding machine. It sported a sleek design, easy-to-read numbers, was effortless to understand and added up numbers like nobody's business. Bankers everywhere rejoiced, as they banged away on the keys, spewing reams of rolled paper onto the floor. Then, along came the spreadsheet and the whole world changed forever. Slowly but surely, the adding machine has joined the likes of the abacus and the slide rule on the historical scrap heap. Like the spreadsheet, banks have readily adopted hedging instruments. In fact, as of the 3Q, the number of commercial banks using hedging instruments had grown 13% from the same period last year to 913. That means, about 1 in every 8 banks across the country is now using hedging instruments. In conjunction with our sister company, Pacific Coast Bankers' Bank, we have significantly ramped up our hedging capabilities over the past 2 years. We spend countless hours working with management teams, boards, lenders, regulators and others to help them better understand how these instruments can not only assist bankers in acquiring and retaining customers, but also increasing profitability. Over time, following lots of education and numerous board presentations, many of our independent bank customers have ended up transacting their very first hedging transaction with us. Our significant growth is a result of helping our independent bank customers better compete by transforming long-term fixed rate loans into loans that float monthly. Given a flat yield curve and strong competition, banks are recognizing they cannot keep loan customers unless they offer a long-term fixed rate solution. Many banks start down this path by "setting aside" a certain amount of long-term fixed rate loans they will originate. This work around solution is quickly used up, so many banks respond by simply increasing the amount. The eventual result is predictable, as bankers that do this soon find themselves having a problem with economic value calculations and breaching policy limits. Another "work around" bankers utilize is to offset long-term lending activities with FHLB Advances. This workaround also causes problems, resulting in lower margins and using up precious liquidity. In addition, since Advances are very rarely matched to the loan, it serves to exacerbate interest rate risk. Bankers do this because "hedging" is perceived to be complicated and it is generally unfamiliar. After hundreds of meetings, visits, discussions and presentations with bankers, we designed a comprehensive program to solve that problem. Designed specifically for independent bankers, our complete hedging solution combines education, training, provides specific monthly accounting entries for banks, gives quarterly mark-to-market reporting, delivers specific regulatory and call report entries, ALM modeling and consulting to allow banks to maximize profit while locking in customers for 10 to 15 years. Our program does not require loans to have yield maintenance, as declining prepayment structures are just fine. For example, a 5Y fixed rate loan to a customer can have a 5-4-3-2-1 prepayment structure and be changed to a floating rate for the bank every month. Under our comprehensive program, banks can change long-term fixed rate loans into monthly floating rate and then match-fund using short-term deposits raised through the branch network. The yield curve looks like it will stay flat through 2007, so customer demand (and extreme competition) for fixed rate loans will continue. If loan growth is starting to slow at your institution and the pipeline is running low, note that our comprehensive program gives you all the tools needed to increase loan opportunities, lock in customers for 10 to 15 years, properly manage interest rate risk and keep liquidity options open. Call us and we'll show you how easy hedging can be.

BANK NEWS

M&A

An investor group including the former CEO of TexasBank (which sold to Compass) will purchase Community Bank of Texas (\$53mm, TX) for an undisclosed sum.

Same Day

In what will become the standard in the industry, First National Bank of Pennsylvania (\$6.1B, PA) will now give same day access to funds for local checks. All qualifying checks will be posted as late as 7:30pm ET. The Bank launched its "Same Day Banking" campaign, touting funds availability and customer service as a way to build core deposits. If anyone else is doing this, please call us.

Bank Cuts

BB&T will eliminate 700 positions, or about 2.7% of their workforce.

Bank Adds

US Bank will hire 400 employees as part of its customer service oriented "PowerBank" strategy. Almost all of these positions will be line or direct customer support positions.

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