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## BRANCHING HOW IT SHOULD BE

by [Steve Brown](#)

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Last week we had two back-to-back experiences that underscored the power of independent banking with its flat management structure and ability to control branch quality. As we were mystery shopping branches, we always spend 15min observing operations. We like to see layouts, traffic flow, loan and deposit promotions and personnel. We strolled into a very nice looking branch of a large multinational and were impressed by the surroundings. This branch was just recently redone and had the "open branch" feel that we love, updated furniture and the now required plasma screen showing all the things we could be doing with the bank. We "tested" the "concierge" with 2 questions: how do we make an address change on our checking account and what are your 45 day CD rates? At 10:30am, we were the only people in the branch and there were 4 tellers, 2 new accounts people and 1 greeter. Everybody looked busy, yet we were asked to wait for 5 minutes while they completed some work. 2 staff people fumbled around for another 7 minutes before coming up with a rate (no one asked us any further questions), at which point we were directed to the wall phone to do the "press-for-account-changes dance." This branch experience inadvertently sent a message that we were an imposition. We contrasted this experience with our next stop at a 3.5-year old community bank. The 900 sq. ft. branch lacked adequate parking, was cramped, had no sitting area for customers, had outdated furniture and barely had an analog clock. This location left much to be desired, except for one thing – the place was packed with customers (which explained the parking problem) and abuzz. We had just walked in the door when an account officer, passing across the floor, stopped and inquired how she could help. This happened 3 more times while we waited, one of which was an inquiry by a freed up teller asking us if we knew about their 3 month CD promotion. Taking the offensive, we drilled down and tested the teller on day count, breakage fees, registration and wire transfers and he passed on all counts. The office was one of the happiest, most lively and seemingly knowledgeable branches we have been in all year. We waited 10 minutes and were "touched" an impressive 4 times. If we cared about service, this was the place. The quality of the personnel served to not only provide for a more meaningful customer experience, but one that is less rate sensitive by its very nature. While a bank spends a fair amount of money opening a branch, all the plasma screens in the world do not count for much if staff is not trained and has a positive attitude.

# BANK NEWS

## Loan Risk

An OCC study detailed while CRE lending provides the highest returns, other lending lines such as agriculture are more profitable after adjusting for risk.

## 2Q Earnings Highlights

1) Wells Fargo profit climbed 9.1% due to higher commercial loan origination (up 12% from the prior year and 15% over the 1Q) and credit card (up 24%) growth. NIM widened to 4.89%. The Bank reported that electronic payroll and bill pay helped drive the small business lending surge. This is Wells' 11th straight double-digit quarterly growth in CRE loans, as small business lending surged (many of our customers report Wells is one of the biggest competitors when it comes to their CRE clients). Wells also reported a 23% increase in noninterest income as deposit service fees increased 11%, debit/credit fees climbed 24%, other loan fees improved 25% and insurance fees jumped 19%. 2) KeyCorp earnings fell 14% from 1Q as margin fell to 3.46% (tighter spreads, higher competition and customer shift from money market deposits to higher yielding CDs). The provision has doubled from the prior year. 3) U.S. Bank reported that profits are down 3.7% due to increase in bad loans and higher deposit costs. Loans grew 4.5% in the quarter, driven by retail (credit cards). The bank reported CRE lending fell from the 1Q, as competition spurred faster loan refinancing.

## SBA Lending Revamp

The SBA is working to remove large contractors from its database by next July in response to new regulation focused on awarding more contracting dollars to small businesses. Under the regulation, small businesses must recertify with the Agency periodically. Meanwhile, the Agency said it is also launching a new search tool to make it easier for procurement officials to identify businesses owned by women, minorities, veterans and those in low income areas.

## Stricter GSE Standards

FNMA and FHLMC announced plans to tighten standards for purchasing mortgages. Starting September 13th, the government-sponsored enterprises said they will only purchase subprime mortgages if they are underwritten at the fully amortizing and fully indexed rate.

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