

DIRTY MONEY AND CUSTOMERS

by [Steve Brown](#)

What would happen if you wandered all over your city, collected money in every store and on every street corner and then conducted a chemical analysis of each bill? Would you find more drug residue on money collected in seedy areas than in wealthy ones? In case you missed it, some quirky researchers have just completed a project that tested just that and the results are interesting. Using statistical analysis and a powerful mass spectrometer, their conclusion is that geographical location has absolutely no influence over the amount of drug residue found on a given bill. In short, it appears from this test that residue is on nearly every bill; however it circulates so quickly that it is impossible to isolate any contamination that may come from a specific geographic area. We found that information interesting not because money is our business, but rather because it brings up an interesting similarity in community banking. Small businesses operate within many geographic areas, but forecasting which one will sell their company next is almost impossible to predict. That doesn't mean community bankers shouldn't try. Customers that sell their business will likely have cash they can deposit with you and they already know and like your bank. In addition, new buyers need banking relationships, so the possibility of a new loan or cash management sale is another reason to focus on these transactions. As every banker knows, business owners planning a transition will often seek the help of CPA's, lawyers, financial advisors, insurance agents and others. That is why so many savvy bankers we know continually work to cultivate relationships with these players. The main problem is that very few of these owners will call their banker first. Instead, they nearly always start with their CPA because such a decision usually also requires a financial plan and has tax consequences. We have no problem with CPAs, but we like bankers more, so here are a few things we would suggest to help bankers work into that first call position. To begin, continue to work with accounting firms and lawyers because they remain the professionals of first choice and as such, are great lead generators. Next, directly ask your customers if they plan to sell their business in the next few years. Let them know you are there to help and can be of assistance when it comes to succession planning, financial management, etc. Studies show 33% of businesses will be sold to an external buyer, 33% will be sold to family members, 18% will be sold to employees and the rest will simply be closed. It is critical that community bankers get into this process early, since they may have loans outstanding to the business, may not know all of the family members and should get connected quickly with external buyers. Many firms have already been in business for 3Ys and studies show that most of these 9.5mm companies will turn over in the next 5Ys, so having a retention strategy is critical. Bankers can also use their own data to find out which current customers have been in business at least 10Ys, as they are likely to be the first ones looking to sell. Finally, offering sessions in the branches with insurance agents, financial advisors, CPAs, lawyers and your staff can deliver more business and retain existing customers. Who knows, maybe you can even have someone work with new owners to help them write a business plan when they buy out your current customer. You may also want to offer this as a value added service the seller can throw in to the transaction, as long as the new customer stays with your bank. Favorable introductory loan pricing and even sharing loan fees with the seller can ensure business stays with you. The only question now is trying to determine which customer to call first.

BANK NEWS

Borrowing Surge

Banks using the discount window surged to a total of \$7.1B, the highest level since the Sept. 11 attacks. This is 7x the normal volume.

Countrywide Finds Funds

Countrywide Financial Corp said Thursday it secured \$12B in financing through new or existing credit facilities that will help the company cope with a slumping housing sector and significant decreases in loan demand.

WaMu Cutting Jobs

Washington Mutual will fire 1,000 employees, close its conduit production unit, cease lending to other mortgage companies and consolidate its subprime sales force with its prime sales staff.

Trouble at First Horizon

The bank formerly known as First Tennessee said it will fire 1,500 employees, slash its mortgage sales force by 50% and close underperforming mortgage branches, as a result of challenging operating conditions in its national real estate, mortgage and banking businesses.

Biz Credit

A recent study finds the subprime market meltdown has had little effect on business lending. In fact, 63% of business owners said there has been "no effect" on their ability to borrow money, while 16% said they knew someone else who was having trouble finding credit and 12% said they couldn't get their banker on the phone.

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