

LOOKING AT SNAKES AND THE LOAN DEPT. FOR VALUE

by [Steve Brown](#)

A disturbing news story hit our desk the other day regarding the apprehension of a 4 ft. python in connection with an armed robbery of a liquor store in VA. According to the police report, the criminals robbed the store and then "stashed money inside a snake" to avoid police capture. The report did not go into the details of how one exactly might "stash" money inside a snake, or more important, how to get it back out. We remain curious. Community bankers looking for extra cash around the bank that don't have any snakes handy might want to try looking in your loan department. To begin, the department is a treasure trove of sales leads. That is good, because loan customers are the first place bankers should go when seeking new depository relationships. Referrals, discounts for establishing primary checking accounts, or debit card programs can all help to increase profitability. The other aspect of hanging out in the loan department is that it is also a data repository for other lucrative information. Here are 4 of the most untapped areas banks could leverage to increase transaction business:

- Cash and Securities – An additional amount of cash and marketable securities can be observed on a client's balance sheet during a financial review. Questions may arise over whether or not there are better uses for the cash balances and who is handling investment advisory.
- Commercial Mortgages - When reviewing corporate financials for a line of credit, an analyst may discover that the firm's mortgage(s) is held with a competing institution.
- Equipment – By conducting a quick calculation on a client's average estimated useful life of equipment, additional refinancing options may present themselves.
- Personal – Principals of the corporation have a variety of financial needs that can be uncovered when a bank does the analysis of the owner's financial position.

As can be seen above, the loan department is well positioned to generate a qualified referral to the appropriate source. Banks that are looking to capture these leads need to develop education and a process for following up. A \$1.1B TX bank we work with recently developed a "Business Control Officer." This individual does nothing but process and follow-up leads generated by the loan department. They are responsible for orchestrating tactics and then receiving referrals for further analysis. Once the lead is received, the officer then makes the initial contact with the client (or manages the relationship manager/loan officer to do so) to further qualify it. If the lead turns out to be genuine and the client is open to a proposal, the Business Control Officer then gets the appropriate product specialist involved and they craft a joint proposal. The bank reports that this officer is more successful at generating leads than any outside calling officer. If you are looking for stored value, check your loan department. If you are looking to store money, as an investment advisor, we can't really recommend a snake.

BANK NEWS

M&A

Royal Bank of Canada will buy RBTT Financial Group, a Trinidad and Tobago bank holding company, for \$2.2B. The move will expand RBC's Caribbean footprint to 130 branches.

OCC on CRE Risk

Comptroller John Dugan in a speech said community banks with concentrations in CRE must increase monitoring and validate loan loss reserves to ensure adequacy. Dugan praised banks that are stress testing their loans under different interest rate scenarios, but added they should also examine what

happens when occupancy, expense and absorption rates are stressed. Banks worried about heat they will get for increasing their reserves should consider this quote from Dugan "I firmly believe that in this environment, increases in loan loss reserves for many banks are both warranted and prudent."

Foreclosure Forecast

Speaking at a forum organized by the FRB of KC, a housing expert said that the pace of home foreclosures is unlikely to slow over the next 12-18 months.

Job Cuts

UBS announced it will eliminate about 1,500 jobs by the end of the year, a day after announcing a write down of more than \$3.4B on mortgage-linked securities. Additionally, Morgan Stanley said it will cut 600 jobs in its residential mortgage division.

Credit Thaws

Bankers sold \$9.4B in loans to finance the leveraged buyout of First Data Corp, double the amount the investment banks initially planned on selling.

Subprime Refi

Chicago's ShoreBank (\$2B, IL) plans to refinance up to 2,000 subprime home loans into traditional mortgages, saying borrowers can lower their interest rates by 1 to 3 percentage points through the program.

Banking on the Wealthy

US Trust, BofA's Private Wealth Management division, is catering to a rapidly growing demographic - the "wealthy" (those with \$3mm+ in assets) and the "ultra-wealthy" (\$50mm+ in assets) - by offering an entire range of services that include investment advice to taxes to estate planning. Globally, the number of millionaires reached 9.5mm in 2006.

Curious Borrowers

Countrywide reported that the recent Fed rate cuts have spurred a 40% increase in the number of customers inquiring about their home financing options.

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