BOXING UP THE BOARD PACKAGE

by Steve Brown

Community banks usually hold monthly board meetings where financial data is reviewed, loans are discussed and issues are bandied about. Unfortunately, many bankers tell us that their 150+ page board report package is not very effective. Conversation is circuitous, little benefit is obtained and board members are, well - bored. We got thinking about what community bankers can do to change this and turn the event into something more useful and productive.

First, understand the purpose of the board package. Good ones are designed to be concise, empirical and focused on measures that are important to goals and objectives of the bank. A good rule of thumb to use is whether the metrics or information can be changed or influenced with board input. Many board members not only have strong business acumen, but tapping them for input can give bank management a different perspective on problems the company is trying to solve.

That is why we strongly believe the underlying goal of any board or committee meeting is to drive and support director discussions of strategy, based on information that has been provided. Things that have already happened in the past are an interesting place to gain context or set the tone, but board members cannot offer much help on something that has occurred in the past. That is why board package content should be skewed to about 90% forward-looking and only 10% to set the tone.

Typically, community banks will have certain common elements in a basic board package. These will include the agenda, minutes from the last board meeting, minutes and reports from any committee meetings, financials, policies and items that require strategic input (many banks will also include specific loan-by-loan information, although we disagree with adding this component).

In short, packages need to be designed to keep the board informed about major decisions, including recommendations with respect to future strategy, business initiatives and any major policy changes to operating plan, budget compensation plan or the strategic plan. The package should also ensure transparency by providing proactive information about the company, current events and visibility into the management team.

In addition, at least quarterly, management teams should strive to provide board members with packages that contain other perspectives on bank performance. For instance, reports on product performance, competitors, legal exposures, loan concentrations, risk analysis, merger and acquisition opportunities and senior management compensation benchmarks, are all examples of such supplemental reports most boards will find quite useful and thought provoking.

Most community banks have 4 main committees, which include (audit, loan, compensation and governance/nominating). Since so much of the board's work these days occurs in a committee structure, it never hurts to also upgrade committee reports in an effort to provide more accurate and timely information to all members and gain better insight.

Remember that the board has a legal and fiduciary duty to properly represent shareholders and to promote the long-term success of the bank. Management teams that design and deliver report packages that help guide long-range objectives; set risk appetite; track performance; develop plans for new business; and, establish policies, procedures and controls; are well on their way to supporting objectives and achieving performance goals.

BANK NEWS

Merger Cancelled

Integra Bank Corp ($3.3B, IN) said it will not acquire Peoples Community Bancorp ($162mm, MO) because of current market conditions. The deal, which was valued at $85mm, was announced in September.

CRE Concentrations

The OCC sent a loud message that they want to see proactive steps in beefing up reserves, taking credit downgrades where warranted, vigorously stress-testing loan portfolios and updating property appraisals. As we can tell you first hand, a number of banks are still not following the Joint Policy Statement issued back in Dec. of 2006.

Subprime Losses

A recent report said that losses from securities tied to subprime mortgages may exceed $265B, as banks and other financial institutions write down their holdings.

Defaults Rise

An industry report showed that defaults on privately-insured US mortgages rose 37% YOY in December. The report further predicted that delinquency rates will not peak until early 2009.

Foreclosures

Research shows 63% of foreclosures involved cases in which the borrower had already defaulted on a previous loan workout plan, did not live in the home or did not respond to bank efforts to contact them.

Pre-emption

E Trade wins its appeal in CA court, as it was ruled that OTS national banking laws pre-empt certain types of CA laws having to do with unfair competition. E Trade charged a $400 fee to lock in a mortgage interest rate that was originally ruled unfair under CA law.