# CONFUSING ACTIVITIES

by Steve Brown

Yesterday's article about bed pillows obviously touched a nerve. Some female readers wrote back using words like "Neanderthal" and "clueless." Some male readers, in contrast, were overjoyed they were not alone in the pillow-mountain-on-the-bed department. It seems men will never understand pillows on the bed that are not supposed to be used, decorative candles that aren't supposed to be burned and hand towels in the bathroom that aren't supposed to be touched. At the risk spending another frosty night on the couch, we chalk it up to confusing differences between the sexes.

Speaking of confusion, consider asset growth as a driver of bank performance. Yesterday, we interviewed numerous banks in Greenville, SC. This area has 33 banks (207 branches), chasing 25,000 households and 3,600 businesses. Each bank has been growing assets in double digits, while deposit growth is a single digit. Total loans associated with this metro area are estimated at $16B, while deposits are $11B. Is there any wonder that every bank in this market is complaining about funding? Unlike having 17 different pillows on the bed, funding problems in many markets are very logical and the natural outgrowth of too many banks chasing too few deposits.

If you are a board member or a CEO, you can help. If you have ever set asset growth targets without understanding your bank's capabilities in core deposit formation, then let us propose another way. Unless you can prove that you can underwrite loans better than the average bank, then asset growth is a function of deposit growth. To set a 12% growth target when core deposit growth is running at 5% sets the bank up for a less profitable future. As further proof the industry has a long way to go, add up all the compensation paid to employees devoted to deposit gathering and compare that to all the compensation paid to employee generating loans. Next, add up the management time devoted to deposit gathering, new product development or pricing and compare that to the management time devoted to originating and booking loans. Most likely, your bank spends double the amount of energy and resources in generating loans than on deposits. Is there any wonder why brokered CD and FHLB borrowings are skyrocketing?

If you think you can grow out of the problem, we are here to tell you it is very rare. De novo banks that start out taking on interest rate sensitive customers will most likely grow into larger banks with interest rate sensitive customers. As time passes, margins compress, credit quality hits an eventual bump in the road (or just reverts to the mean) and the bank becomes unprofitable. Every day we see a headline of a bank that has followed this path on its way to a tragic end - Countrywide, Indy Mac and Wamu are but a few recent examples. The problem is that once the board and management are used to focusing on asset growth, they inevitably build a culture around deposit promotions. Any banker that has done an acquisition of such an institution knows that the most likely result will be to shrink the bank, dismantle rate-driven promotions and rebuild.

If you are a bank currently experiencing a funding problem, consider controlling growth as an alternative. Consider setting asset growth targets as a function of deposit growth, instead of just booking loans and then looking around for deposits to fund them. If that sounds too confusing and you still want to grow assets faster than deposits, then at least devote more resources to the marketing, sales, training and structuring of deposits. In this manner, banks can have a firm foundation and eventually end up with a culture driven by deposits instead of loans.

Just like you will never catch a guy with decorative hammers hanging in the garage, having excessive asset growth targets hanging around doesn't make much sense either.

## BANK NEWS

**CFO Jobs**

A survey by Robert Half finds top considerations for CFOs seeking a job are salary (27%), company stability (24%), work environment (22%), advancement opportunity (17%), equity incentives (4%) and other (6%).

**Mobile Banking**

Banks considering opening branches to capture new customers might want to review the latest research on mobile banking. Experts project the number of mobile transactions will reach 37B in 3Ys, as 10x more people than today begin to use such services. Common mobile user requests from banks include providing financial information, bill payments, account transfers, customer service and account management services.

**College Students**

Did you know that 75% of all college students have a credit card; 97% own a computer; 76% communicate using instant text messaging and 75% have an account on Facebook or some other social network?

**Homeowner Worries**

A new poll finds 43% of homeowners worry their home will lose value over the next 2Ys, while 15% are concerned they won't be able to make their payments on time in the next 6 months.