MOM ON YOUR FUTURE

by Steve Brown

As Mom always said - "Don't be a victim." While harsh, the often used comment was empowering. Events don't happen in isolation and when things don't go your way, you can bellyache about it or you can be part of the solution. Victims look to blame, point fingers and make excuses. People or organizations that control their destiny, seek to change their environment. However, some banks may be acting like victims when it comes to loan pricing.

If you fall into this category, you have 3 choices. One, you can architect your bank to compete on price. This can be done by focusing on deposit pricing, controlling growth, becoming more efficient, boosting fee income or increasing leverage. Two, your bank can differentiate itself on service. This allows you to command a higher margin in the industry despite competition. Increasing marketing spend, building a cohesive brand image, turbo-charging training and creating a sales culture that positions your bank more as a consultant than a commodity, are all ways to do this.

While we have said these points before, the difference now is that as lenders raise underwriting standards and growth slows, it is important not to let service suffer. In this market, it is easier to differentiate yourself and grab this opportunity. Does your bank still provide quick turn around time on credit decisions? Can the bank offer a 15Y fixed rate loan? Can the bank advise clients on when to accept floors in loans or pay up front fees, in exchange for a lower rate?

Instead of competing on a geographic focus, why not switch to one of knowledge? Many banks pick an industry specialty in order to extract value. Getting to know the hospitality sector, cash flow lending, 1031 exchanges, home improvement loans or franchisee lending, are all areas where banks can differentiate themselves on knowledge. Community banks hold themselves out to be flat organizations and pride themselves on flexibility. If this is true and your bank creates value, then perhaps you should be charging more for it. However, if customer service is just talk, then it may be time to pick another business model. To thrive in banking over the next 3Ys, it is clear that bank management is going to have to be on top of their game.

Banks must revise their 2008 plan to take into account increasing credit issues, rising risk and lower customer profitability. It is now more important than ever to understand how much risk your bank will take for quality clients you want to retain. This means having a client acquisition plan and executing against that plan. Banks have to know who their most profitable customers are and focus on what other profitability can be obtained from those customers.

Getting your staff the training needed to negotiate loan pricing with a customer is a good idea. In this market, there is still intense competition for some customers and certain loan types. Many of these opportunities may be worth pursuing, but many more are not. Having the tools to understand the value in a loan, within the overall portfolio and based on customer profitability can make a world of difference.

Banks should have a solid plan to create an organization that can compete on price or that is structured to extract value through defined customer service. Lest you think we forgot, of course, the third alternative is to change nothing. In that case, the choice is to ride the winds of change buffet your margins. As mom would say, this is a sure path to end up a victim.

BANK NEWS

Customer Service

: When it comes to the best reputation for serving customers, a Harris poll gave banks a composite score of 46 out of 100. This is 10 points lower than last year and puts banks 7th behind supermarkets (score of 84), online search engines (65), computer hardware (64), software (59), hospitals (53) and internet service providers (52). In addition, the survey found 26% of respondents said banks were doing a "poor" job at customer service.

Naked Shorts

The SEC ban on naked short selling of large financial companies in the country ends today, so bank stock volatility is likely to return. Since the ban on 7/21, stocks of these large financial companies have risen about 17%.

Lending

As defaults and delinquencies have climbed in the past 3 months, banks responded by tightening credit across all major categories of consumer and business loans. According to a FRB survey, 75% of banks in July tightened requirements for prime mortgages and 65% increased standards for credit card loans. These were both more than double the percentages seen in the last survey in April.

Check Change

As of October 18, the Cleveland FRB said its Cincinnati branch will no longer process paper checks. The closure continues an ongoing move by the FRB to downsize paper check processing infrastructure in line with declining processing volumes (given the huge shift to image).

Consumer Debt

Reflecting the state of the economy, 34% of those 35Y to 54Y have found it more difficult to pay credit card bills in full. On average, over 25% of consumers say they can no longer pay bills on time.