

FIXING PROBLEMS

by [Steve Brown](#)

Yesterday, we made the comment that banks trading far below their book value are "most likely doomed." We admit that we said this in too cavalier a fashion and our thoughtful readers called us on not being thoughtful enough. If your bank is trading far below its book value things aren't terminal, but know that the market is sending you a message. To prove us and the market wrong, we talked to several noted bank workout specialists for tips on how to work with bank employees in troubled times.

The first lesson that we learned is that if your bank is trading far below book value, you are basically in workout mode and getting the most out of employees when morale is low is a Sisyphean task. However, in sticking with our theme from yesterday, there is opportunity. Unlike 2005 when everything was running perfectly, now we know what is broken. The market has given us the perfect opportunity to pull bank employees and focus them on a limited set of tasks to bring the bank back to full health. The first step here is to be candid with employees and get them involved with identifying and fixing the problems. While we were off base with our comments yesterday, taking the other tack is even more dangerous. It's easy to blame the economy for all the reasons a bank is suffering. Blaming credit problems on the

downturn implies that the situation is totally out of the bank's hands and left in large part to fate. This is exactly the kind of attitude that prevents banks from fully understanding and fixing their problems. Increase communication, open the books to highlight the problems and go to work to identify the fixes for the future.

The next step is to raise the profile of the senior management team. A common theme that we heard from CEOs that focus on workouts is that the problems that appear on paper are usually deeper. To fully understand them, senior management needs to get out, physically move their working location to different departments and spend some time in various areas. This will help all better understand the issues. In addition, getting out in front of the customer and hearing first hand what they are saying is mandatory. In short, don't wait for employees and customers to come to you - go to them first. Finding out a) how they are doing (many will just want to vent), b) what the problems are, c) what are their solutions and, d) what resources are needed, will help senior management understand what needs to be done.

The purpose of employee and customer meetings is to not only find out ways of improvement, but to get everyone involved in the process of putting the bank back on track. Maybe it is more loan portfolio diversification, stronger credit underwriting or coming up with cost cutting solutions. Whatever the solution, getting the first hand collective wisdom from the troops and their buy-in for solutions is central to the rebuilding effort.

There's no need to sugarcoat any of this or remain invisible as if it is business as usual. Pulling a bank through a downturn isn't easy, but emphasizing the challenge can have its benefits. It's a

great time for employees and customers to realize that they can play an active roll in their future. Tomorrow, we will look at how many banks should be expanding, not cutting compensation in times of a workout.

Related Links:

[TARP Q&A](#)

[TARP Updated Term Sheet](#)

[TCPP Round 2 Bank List](#)

TARP CAPITAL PURCHASE PROGRAM UPDATE

The Treasury announced private banks will have until Dec. 8th to apply for capital under a revised process (applies to about 3,800 banks), while announcing it is still working on the format under which another 2,500 S Corp banks could apply (as well as mutuals). Under the revised program, private banks must have a holding company or file an application for one by Dec. 8. While most of the terms are the same, the warrants will be issued at a strike price of \$0.01 a share, but the amount was reduced from 15% to 5% of the preferred issuance amount. In addition, the warrant shares will carry a dividend of 9%. Depending on how banks value its shares, this CPP version might be more expensive than the public bank version. For more information click the Q&A or the updated Term Sheet in our related links section below.

BANK NEWS

The FDIC published TCPP Round #2

The Treasury announced it had invested \$22.56B into 21 more banks, pushing earmarked payments to banks so far to \$158.56B. For a list, follow the link in our related links section below.

Credit Cards

A recent Federal Reserve survey finds 60% of banks have cut credit card limits for nonprime borrowers and 20% have done so for the most creditworthy borrowers. Banks are lowering limits, tightening standards, adjusting rates and targeting specific geographies as they seek to limit losses as the economy worsens.

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