FIXING PROBLEMS

by Steve Brown

Yesterday, we talked about the importance of not remaining invisible in times of crisis and not sugar coating the bank's problems. While no one likes a downturn, it does give our industry an excellent opportunity to both identify and fix problems. Today, we further discuss what we learned from talking to CEOs that specialize in bank workouts to better understand what we could be doing to improve performance in troubled times.

One obvious upside of a downturn is that recruiting qualified employees becomes easier. With more candidates in the job market (be sure to look outside of banking) and large banks cutting staff, now could be the time to find new talent. That is the easy part. However, one important recommendation is not to forget about top performers already on staff.

When the economy's bad, it's easy to think that employees are grateful just to have jobs. However, top performers are always in demand and a drop in morale may cause quality employees to look around. The trick many veteran bank CEOs tell us they use is to give these key performers a reason to stay. One way to do this is by helping them advance their careers. Keep critical talent moving Ã¢Â€" not necessarily up, but growing in experience, responsibility and money. If promotions or raises aren't possible, give good workers the chance to make a lateral move or to take on a struggling department in order to prove their talent.

Another issue all bankers will face is cost cutting. The problem with a downturn is that while cost cutting is absolutely necessary, it can make everyone gun-shy about pursuing new initiatives. As they say, you can't cut your way to growth. In order to emerge from the slump in a stronger competitive position, there are a few key investments you must consider.

One area to invest in is your customers. While larger banks are busy shoring up their relationships with large, established clients, now is the perfect time to expand marketing to bring in their smaller customers. Identify and proactively go after customer profiles that you want.

Another investment to make is in cash management development. What you did not have time to do when loan business was booming is now critical to develop. Here, you can take a cue from Apple's Steve Jobs. Jobs is famous for his 2001 strategy that increased product development in the 2001 downturn and developed the iPod and the iPhone. A recent interview has Jobs saying that he will employ the same strategy this downturn. The trick here is to pick your most important projects. Increasing your cash management capabilities should be among them. The best thing about new projects is it gives employees an obtainable goal that helps morale.

Finally, don't forget about the compensation investment. People are by far a bank's most valuable asset and treating them like a cost center is a mistake. Employee bonuses and raises are among some of the first expenses that upper management cuts during a downturn. This could be an error, as quality employees may not be breaking sales records, but they still could be keeping the bank from having to take more loan write-offs. Shifting the compensation plan to reward for performance may be just what is required. Even if extra dollars aren't in the budget consider other forms of recognition. Don't forget that a very close second to monetary compensation is recognition. Now is the time for senior management to spend more time finding employees that do things right. Get your chairman to take an important group of employees to lunch. We guarantee it will be the best $100 ever spent.

In a downturn, strategy becomes even more important. Setting the right tone and focusing on customers, targeted new product development and key employees will help your bank rebound quicker than the competition.

BANK NEWS

Under the TARP

4 large insurance companies (Lincoln National, Hartford Financial, Genworth Financial and Aegon NV, the owner of Transamerica) reportedly reached out to the OTS and offered to buy 4 specific distressed banks in return for a place at the TARP table. The companies have reportedly all applied to become savings and loan companies.

Weaker Consumer

Bank of America's CEO said yesterday that the economy will get worse before it gets better and that he expects "the highest credit card losses the industry has ever experienced."

Treasury Debt

The latest data finds China in the #1 spot as owner of Treasury debt, surpassing Japan for the 1st time in history. China held $585B while Japan held $573B. Rounding out the rest of the top 5 were the UK ($338B), Caribbean banking centers ($185B) and oil exporters at ($182B).

Company Stresses

Moody's reports the number of companies at risk of running out of cash (based on its liquidity rating) climbed 14% in Oct. compared to Sep. This is the highest level since the index was created.