BUDGETING TO REDUCE EXPENSES

by Steve Brown

If you are like most community banks, this time of year not only brings holiday cheer, but it also ushers in budget season. Given how rough things are projected to be over the next year or two, however, this budget season provides additional challenges for banks. Surveys show rising credit costs and reduced profitability have bankers industry-wide seeking ways to cut annual non-interest expenses by 10% to 15%. This budgetary cycle, it is especially critical for banks to take extra time to scrutinize the entire process. Here are some suggestions we think you will find especially useful.

Take a customer view. Throughout the entire budgetary process, examine expenses from the perspective of the customer. Ask the tough question of whether the customer values each product or service. If the answer is no (or very little), find a way to eliminate it. Studies show this kind of effort can generate as much as 20% savings over the medium term.

Cut redundancy and inefficiency. In survey after survey, customers say they want banks to increase convenience, improve speed and make things simpler. Faster response, shorter forms, reduced redundancy and simpler products can all reduce expenses and improve the customer experience.

Tie expenses to revenues. It is critically important to tie each and every expense to specific revenue streams wherever possible. Doing this provides a profitability roadmap that can help bankers improve profits as well as allocate scarce resources by product, service or team. In the event tough choices are required, this roadmap provides faster decision-making based on fact, rather than emotion or gut instinct.

Review discretionary expenses. All too often we travel to conventions because we have done so every year, without examining the impact of what such events deliver to the company. Force-ranking travel, conferences, entertainment and other such expenses gives banks a way to prioritize among those that deliver bottom-line results. Banks should rigorously evaluate how much money was saved or profit was captured for each expense. Keep those that translate to bottom-line performance, while reducing those that provide no evidence of increased value.

Scrutinize new capital expenditures. Bankers are also taking a close look at new capital expenditures and delaying where feasible. Postponing new branch openings, subleasing empty office space and waiting to upgrade technology are but a few examples. In this area, however, banks are cautioned to carefully weigh short-term expense gains against long-term company objectives to ensure a balance is maintained.

Focus on your people. The typical business development officer spends 25% to 50% of their time on non-revenue producing activities. Boost sales and increase customer acquisition opportunities by simplifying sales reporting, increasing training and streamlining processes. Doing this can free up as much as 20% unused capacity and boost revenue.

Ask your employees. Encourage employees closest to the customer to provide ideas to improve productivity, enhance the customer experience, reengineer processes and reduce unnecessary costs. Studies abound that show even small improvements can add up to large annual savings. In fact, analysis of one 6,000 employee banking organization found employees generated over 2,000 ideas in an 18 month period alone. Those ideas added up to $18mm of tangible savings, while the bank paid out $400k in rewards. Clearly, getting employees involved in the process can produce new ways to save money and leverage scarce resources.

No matter what approach you take when tightening up on expenses, be sure to include a close examination of inefficient workflows. All too often, banks reduce headcount to get an immediate increase in profitability, while failing to address underlying processes that are producing ongoing costs. There are still areas where community banks can reduce expenses, but running detailed calculations and keeping perspective from the customer's view will help ensure maximum results are obtained under any program.

BANK NEWS

M&A

Middlesex Savings Bank ($3.5B, MA) will purchase Service Bancorp ($401mm, MA), the bank holding company of Strata Bank, for $21.5mm. Service Bancorp lost $6.6mm from falling GSE preferred shares and $1.9mm on Lehman bonds, resulting in a total RBC at 8.01% at 3Q end.

TLGP Mistakes

Many banks received an e-mail from the FDIC charging them for the right to issue debt outside of the guarantee program while preserving the guarantee. A portion of these banks did not intend to issue non-guarantee debt. If this is the case, an e-mail to DCAS@fdic.gov with the subject line: "TLGP Non-refundable Fee Correction - Cert #XXXXX" will correct the problem. In the body of the e-mail, include the bank's cert number, name, address and contact person details in addition to letting the FDIC know that the bank erroneously elected the non-guaranteed debt issuance option.

TARP Dollars

The Treasury Department shelled out $3.84B to banks in a 3rd round of payments last Friday, totaling $165.3B and leaving a little short of $85B to be spent.