

LEAVING COSTS BEHIND

by [Steve Brown](#)

Given that so many community bankers have recently done some traveling for the holidays, we thought many of you might find it interesting that each year travelers lose about 12,000 laptop computers in airports around the country. We know we would be lost without our laptops, which is why we wonder what the heck 67% of those people might be thinking that never come back to reclaim their computer. Maybe there is so much on the minds of people these days they simply forgot, maybe they didn't know where they left it, or maybe they just aren't that worried. We don't know, but one thing we know bankers won't forget to do in 2009 is to refocus energy on controlling costs. This year, bankers are certain to look very closely at those areas that deliver most of the annual cost increase for their bank.

One such review area is in technology. It is critical during times like these when money is tight to make sure the company is not building technology applications that will never be used. Ask every single time on every single project - did a customer ask for this, does it make sense or are we just building it because it is shiny and new. Now is not the time to build something that won't immediately boost income or cut costs.

Another area of focus is in compliance. We are all now so worried about monitoring risks we may be overdoing it in some instances. Make sure to "size" each risk to ensure the bank hasn't brought a bazooka along to deal with a gnat. Whether it is data, credit, interest rate or any other risk; sometimes just reminding department managers of the importance of following policy and procedure can be an 80% or higher solution. Don't get us wrong, as we are not condoning cutting corners, but rather just reminding bankers that sometimes the best solution can be an easy one to implement.

A third thing we often hear bankers refocusing energy on relates to putting a cap on healthcare. This can be one of the biggest costs, which is why many bankers are requiring larger employee deductibles, fewer options and more basic packages. Doing this can save a bank thousands of dollars, but be careful, because the tradeoff in employee morale can be even greater.

Other things bankers are doing to control costs include slowing branch expansion plans (is remote capture ramping up faster than expected, can an ATM upgrade suffice), shuttering unprofitable branches (know when to call it quits), reducing headcount by eliminating consultant positions (all consultants should have a defined completion date on each project), tightening up to ensure employees use up all of their annual vacation (rolling over costs the company more money and can lead to burnout), working to reduce taxes (hard to do, but this should always be a focus for the finance team), auditing the top 25 largest expenses and strategizing on ways to cut the cost of each one by 5% to 10%.

There is no magic bullet when it comes to saving money, but taking small steps now to address areas where costs are beginning to increase is a good start. Who knows, maybe you can even buy your next set of bank laptops from an airport near you. Now, if we could just remember where we left the laptop...

BANK NEWS

M&A

Citigroup announced it will merge its Smith Barney brokerage unit into a joint venture with Morgan Stanley, giving Morgan control in return for \$2.7B in cash. The new entity will be called Morgan Stanley Smith Barney and will have more than 20k financial advisors and \$1.7T in client assets.

M&A

Advance Bank (\$78mm, MD) has entered a deal to purchase a branch office and \$19mm in deposits from Susquehanna Bancshares (\$14B, PA).

FHLB Seattle

The Company said it expects its capital level to have slipped below regulatory requirements as of Dec 1.

Retail Pain

According to a survey, nearly 70% of consumers will hold off purchasing discretionary items in the 1Q 09. This number typically hovers around 55% post-holiday. Meanwhile, 32% said job insecurity was the main reason.

Higher Unemployment

The Conference Board is projecting job losses could increase by 2mm in 2009 on top of the 2.6mm that occurred last year. If that happens, a 10% unemployment number would not be out of the question.

Economic Projection

Merrill Lynch is projecting GDP will contract 2.5% in 2009 as the world works through a significant global recession. Meanwhile, the IMF projects the US economy may start to recover in late 2009 or early 2010.

IT Slowdown

A new study by Celent indicates global IT spending by financial institutions will fall 1.3% in 2009. That follows 4.5% growth in 2008 and 6.4% in 2007.

Mortgage Refinancing

Actions by the FRB and Treasury are beginning to bear fruit in the mortgage market. A 150bp drop in longer-term rates has helped push mortgage refinancing to its highest level in 5Ys.

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