

DEPRESSED TO GREEN SHOOTS TO AIRCRAFT CARRIERS

by [Steve Brown](#)

An interesting thing has been happening in the marketplace as of late. A study found that back in Sep. 2008, there were 2,400 media mentions using the term "Great Depression" and that the phrase reached its peak in the news in Jan. 2009 at just over 3,000. Since then, however, media usage of the term has fallen for the past 3 months in a row. While there remains quite an imbalance toward the pessimistic, the term "green shoots" has gone from 8 mentions in Sep. 2008 to 89 as of Apr. 2009. Our point - investor psychology is moving, but it is doing so at about the speed of the proverbial aircraft carrier turning around in the ocean.

We bring all this up because no matter how fast your bank is turning, the fact remains that change is inevitable and the banking industry is in many ways at the forefront. Given so many distractions, pressures on performance and other time-sapping issues to deal with, what can community bankers be doing to prepare for a business model change?

The first step in examining the business model and finding things to improve is to take a moment to stop and analyze how the bank operates, where opportunities may exist and how best to move forward. Once that list begins to form, put in place a program to constantly challenge team members within the bank to continuously improve processes and procedures. Doing that

builds a strong corporate foundation of adaptability and long-term profitability, even when conditions are severe.

The key to tackling any challenge is to stay focused. It is important to pick a problem within the business model and then stay focused until a solution emerges. Changing the business model is difficult, but it is also necessary to survive and thrive. Once you determine, say, that funding is the biggest issue, solicit internal ideas to solve the problem. Sometimes the best ideas can come from the craziest places; so ask, ask, ask, until you find an answer. Have white boarding sessions, offer a vacation to the winner or pay out a portion of the savings that are captured through implementation to the employee that dreams up the best solution. Then, once you decide on the best course of action to modify the business model - focus, focus, focus until the conversion is complete.

One key way community banks can start this ball rolling down the hill is to change from a silo structure, where information and knowledge are hoarded, to one that actively shares. Until knowledge flows freely across the bank, synergies are not fully leveraged and ideas will be missing that could solve the problem. Fight the urge throughout the company to resist sharing data or information because someone else might find the answer. We don't have time to waste and it takes a long time to turn around an aircraft carrier so you have to start early. The sooner management realizes the problems being faced are complex, the sooner collective brainpower can be harnessed to solve those problems. Silos don't help the process, communication is critical and those who try to control information flows are actually hurting their own company. Let go, share the information and share

ideas to help your bank move to the next level - you never know where that next great idea will come from.

We have all been through a situation where immediate improvements in a business process were required. That solves the problem, but the fix is usually temporary and strains can become evident shortly thereafter that require another such fix. Instead of running from fire to fire with a small bucket, try to take the time to review the entire business model and ask why things are set up this way and whether or not there is a better way to do certain tasks or functions.

Improvement and change take time, which is something community bankers just do not have. The good news is that some of the best business model shifts we have seen take time to execute and are embedded in long-term strategies. Turning the wheel on the bridge is only the first step toward gradually moving the ship in another direction. Bankers can begin the process by focusing efforts on a specific issue/opportunity, soliciting feedback from others, embracing their perspective/input and trying to find the "best solution" - not just the easiest one or continuing along the current path "because it has always been done that way." Your competitors continually change and your environment continually changes, so it also makes sense that your bank will need to change now and then.

BANK NEWS

Incentive Overhaul

The Treasury, SEC and FDIC are in the early stages of creating pay structure guidelines for the financial industry. One idea in focus is to restructure pay incentives that undermine the "safety and soundness" of institutions, such as loan officers being compensated for loan volumes rather than loan performance over time.

State Street

The Bank will take a \$3.7B 2Q loss related to the mark to market associated with bringing assets from many commercial paper conduits back on balance sheet.

Economic Help

Analysts at Morgan Stanley estimate that the Fed's moves of purchasing securities (to keep rates low) and other quantitative easing measures, will provide a boost to mortgage refinancing and put nearly 2x more money in the pockets of U.S. consumers (than the fiscal stimulus alone).

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