
THE RULE OF 150

by [Steve Brown](#)

The "Rule of 150" finds that human beings, as a species, will relate to a maximum of about 150 people. Put another way, we tend to remain social and interactive with about 150 people in our lives. Scientists calculate the number for each species by taking the size of the neocortex and dividing it into the size of the brain. The result is a calculation that roughly approximates how many individuals a given species can effectively relate to. Scientists theorize that for humans, the number is the largest of all other species because as brains evolve, they become larger in order to handle the complexities of larger social groups. Since humans socialize the most, we have the largest cortex and we therefore can handle the largest number of social relationships.

Community bankers test this theory of 150 every day, as new customers are met, branches are opened and employees come and go over time. Staying on top of all of that is a challenge, but it pales in comparison to the challenges bank executives are facing right now as they work to remain competitive in a dynamically changing industry. Here are some of the most likely steps community bankers will be taking as they continue to modify the business model through the end of the year.

Nearly all community bankers that we talk to say they are working harder than ever to increase cross selling efforts with existing customers. These are the days of relationship, so customers that don't have tight associations with their community bank (i.e. both deposit and loan) are finding themselves being pushed away. Community bankers have a great opportunity to sell other products to existing customers since many competitors and especially the largest banks are distracted right now. To achieve maximum success, cross selling programs should be based on understanding the customer, matching products to customer needs and leveraging segmentation strategies to focus limited marketing resources. Now more than ever, customers are looking for a trusted advisor to help guide them through the maze of choices and industry turmoil, so understanding customer needs and positioning services to solve problems are good first steps to any program.

Banks are also in restructuring mode. Studies find about 15% of banks plan to sell or close branches this year to save money and that number is expected to rise to 20% to 25% by year-end as stresses continue. That isn't surprising when you consider the heavy adoption rates of online banking and analysis that indicates the typical branch costs about \$2mm to open, plus another \$1mm per year to operate in management and staffing costs. When times are tough and margins are tight, bankers have to consider all sorts of alternatives they probably wouldn't even think about in headier times. Remote capture, mobile and online banking have all changed the playing field and community bankers are increasingly adapting.

Community bankers are also scanning the horizon for any sort of sign that the credit crisis is abating but they are also realistic. Studies find most community bank executives expect loan losses to increase through year-end (78% of bankers surveyed) and nearly all expect foreclosures, refinancing and fraud to increase this year as financial stresses continue. Bankers have already done a lot to address these issues, but hiring a lawyer right away to address loans that are starting to go sideways is one of the best things a bank can do to protect its franchise. Get aggressive, stay aggressive and don't be shy about bringing in outside expertise to help if a loan problem looks significant.

As you ponder what we have just covered, consider that even military units adhere to the Rule of 150. Over the years, military planners throughout the world have found that the best size for units of soldiers is about 150. Any larger than that and the group becomes dysfunctional, as loyalty, unity and peer pressure begin to break down. However, as long as the unit has about 150 soldiers or less, behavior is controlled based on personal loyalty and direct contact within the group.

BANK NEWS

Fraud

Three Countrywide executives, including its ex-CEO Angelo Mozilo, now face fraud charges by the SEC. Allegations are based on major involvement in the subprime mortgage crisis and subsequent financial downfalls.

Citibank

The FDIC raised their internal risk rating for Citibank and is now pressing the OCC to institute a management change at the top levels the WSJ reports.

Silverton

Despite efforts to bring in private equity (reportedly Carlyle Group) over the past month or so, an agreement could not be reached. As such, the FDIC will now ramp up the process to push an estimated 500 community banks to find other correspondent bank relationships.

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