THE CHANGING WORLD OF BANKING

by Steve Brown

We were intrigued to see a new report that shows small business credit cards now account for 11% of all Visa and MasterCard charges. That is about 4x the penetration of just 10Ys earlier. This is certainly strong growth, but it pales in comparison to remote deposit capture. Since its widespread adoption just 3Ys ago, RDC implementations have soared. Currently, 50% of all US banks offer RDC to customers. As these two data points reflect, the banking world is continuously revolving, so adapting to change is critical. Here are 6 changes bankers should be considering now to improve performance.

1. Run ALLL Monthly. Many bankers still run ALLL quarterly. While this has worked historically, things are changing rapidly and credit volatility is high. Running ALLL monthly helps keep everyone on top of problems; raises board awareness and demonstrates to regulators that you are proactively managing issues. A monthly cycle ensures your bank is reacting quickly to conditions as they change. Finally, by shifting to a monthly process, CCOs don't have to restart the engine every 90 days, as they try to remember the story behind each problem loan.

2. Dump Defaults. Many banks we know use loan origination software that defaults to allow 20% prepayments per year on loans without penalty. Simply removing that option saves bankers a bundle and ensures customers that want to prepay have to come in and negotiate at a minimum. That gives you options, cross-sell opportunity and reduces risk. We also note that on some systems the prepayment without penalty option is additive, so at year #4, a customer can prepay 80% of their loan and not get charged anything.

3. Increase Urgency. Most community banks have a weekly loan production or pipeline meeting to discuss new opportunities. In these days of problem loans, we also suggest bankers have a weekly meeting about problem assets. This not only helps raise awareness, but many smart minds are trapped in a room trying to find a solution to the problem. Keeps everyone focused, increases urgency and can produce options singular analysis may not have surfaced that will assist the bank.

4. Take Action. Customers love to tell bankers stories about how and when they will make good on a past due loan. If a lease isn't signed by next Wednesday, the customer says they have to talk to investors or someone is out of town; don't believe it and don't hesitate to take action. File a notice of default, get the borrower's attention and get them (and everyone else tied to the loan) back to the table to negotiate a solution.

5. Wake Everyone Up. When you send out delinquency notifications, be sure to hit all guarantors on the list. Some really do care and are conscientious to boot. These other parties will add pressure in order to make sure their credit doesn't go down with the ship if they can avoid it. From delinquency through notice of default, include everyone, on every communication, every single time. You would be amazed what a little peer (or spousal) pressure can do to resolve a problem.

6. Courteous Collection. As Mark Twain once said, "Always acknowledge a fault. This will throw those in authority off their guard and give you an opportunity to commit more." Understand that a delinquent borrower is at fault and has underperformed - not you and not your bank. You not only have the moral high ground, but it is your obligation to collect. When customers stop paying, their

actions put your bank at risk. This endangers your support of the community and employee jobs. The reason guarantors are there in the first place is to provide a guarantee. When loans go bad, guarantors are there to step in and help. Take them at their word and ask them to do so. Remember that bankers who remind borrowers of an obligation owed are being courteous, not mean and certainly not evil. Borrowers that don't perform are not your fault, but not trying to collect certainly is someone's at the bank. Don't hesitate to collect a debt you are owed.

Change can be good, so we urge bankers to change routine and try just a few of these ideas to improve performance.

BANK NEWS

Repo Sweep

The FDIC clarified its position on the special assessment as it relates to sweep repo. Banks with "improperly executed" sweeps will be subject to the assessment after Jul 1. For "properly executed" repos, banks must do a number of things including: clarifying their "as agent" position, adding proper disclosures, not allowing rights of collateral substitution and having specific securities segregated.

Writedowns

According to ForeclosureRadar.com, if Southern CA is any example, banks are now willing to accept 66% of their principal balance on average at 1st trust deed foreclosure auctions in May. This is down from 68% in April and up from 77% a year ago.

Eco Outlook

According to the ABA Economic Advisory Committee, the recession will end in 3Q. We will take the over.

Rising Muni Risk

Analysis finds car purchases account for 15% of sales tax revenue for most states and sales taxes usually support about 33% of total state revenue. As the GM/Chrysler bankruptcy flows through the rest of the country, expect municipal stresses to rise further.