

GETTING THE DIRECTION RIGHT

by [Steve Brown](#)

We are halfway through our strategic planning work for banks this year and thought we would recommend a couple of basic items that may deliver improvement. A good strategic planning session should do 3 things: Set long-term performance goals, establish risk tolerance levels and provide a strategic road map of how to achieve targets.

In the first 90 minutes, the session should reaffirm and update the strategic targets of the company - ROE, ROA, capital, asset growth, etc. Whatever these are, management should have a clear understanding (not - "above average growth") of what they have to achieve and the priority of metrics that need to be measured. A good way to do this is to ask what the bank is willing to sacrifice to achieve a given metric. If you will sacrifice customer satisfaction for ROE then ROE needs to be moved up. Will you sacrifice ROA? CAMELS? NIM? Find out what is really important to the Board and then make sure there is a clear set of priorities to hit. Don't include everything and the kitchen sink and don't include anything that can't be concretely measured (like community service or customer satisfaction). While "squishy" goals may sound fine, they don't do anyone any good if they can't be measured. Management obviously has to make their customers and community happy to achieve long-run goals, so let the numbers speak for themselves. Our favorite goal comes when banks say they will "achieve a high standard of ethics." It sounds nice, but means nothing. Hopefully, the team already has a high standard of ethics and professionalism. If it doesn't, they will most likely lie about it anyway.

Next, decide on how much risk and where to take the risk in order to achieve profitability targets. To grow faster than the economy means taking on some risk - where do you want to achieve it and how much risk should you be taking on? Will the next 2Ys be ones of defense or how much of your resources will be devoted to going offensive and taking advantage of opportunities. Decide these questions and the table will be set for developing a long-term strategic plan.

The 3rd basic item in strategic planning is to come up with a roadmap for the next 5 to 10Ys. The major issue we have with many strategic plans is that they often have little to do with strategy. Many are nothing more than 3Y budgeting exercises. Coming up with a plan on when to open branches, hiring and how to raise capital is good; but don't delude yourself into thinking that this is strategy. Most of what is discussed in strategic planning sessions is usually tactical. True strategy revolves around identifying new opportunities (markets, products, geography, process, etc.) and/or changes in the environment that can be exploited. Getting out of the mortgage business, expanding into another state and getting into the valuation market are all the fabric of true strategic plans.

Quality strategy starts with a premise (i.e., mobile banking will be the wave of the future) and ends with a quantitative plan on how to achieve that strategy that highlights the risks and rewards. If a bank can walk away from its planning process with a set of clear initiatives that it will either be taking or getting out of, then the session was a success. If a strategy outlines tactics to achieve that plan, so much the better, but it is not required. Making an acquisition, hiring a team of people or building a business from scratch might all be ways to achieve a desired plan and should be thought of in that context.

This year, strategy is more important than ever. Setting clear, measurable performance and risk goals are critical. Then make sure your strategic planning is truly strategic to get the bank headed in the right direction. Strategic planning is a discipline unto itself and getting the process right becomes a strategic advantage. This year, don't short-change the process.

BANK NEWS

M&A

Community Trust Financial (\$1.2B, LA) has agreed to purchase Madison Financial (\$65mm, MS) for an undisclosed sum. Combined the bank will operate 21 branches.

Toxic Assets

The FDIC announced the first deal under the Legacy Loans Program designed to offload troubled assets from balance sheets. Residential Credit Solutions will acquire \$1.3B of Franklin Bank's (\$4.9B, TX) loan portfolio for \$64.2mm. In exchange with the FDIC, RCS will issue a \$727.8mm worth Gov't backed note to help fund the deal.

Citi

Announced plans to shed its stake in Smith Barney.

Director Question

Several of BofA's directors that sit on the audit committee have been subpoenaed by the NY AG. NY is looking into civil fraud related to BofA's acquisition of Merrill. At stake is whether directors were misled by management, mislead shareholders or failed to exercise proper due diligence and judgment in approving the merger.

Employment

Economist Paul Krugman estimates US unemployment to peak in the beginning of 2011.

Housing Prices

The latest data shows 25% of homes for sale have cut their prices at least 1x since going on the market. The average discount was 10%.

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