FISHING FOR NEXT YEAR'S BANK BUDGET

by Steve Brown

Every year the world pulls 29mm tons of fish from the sea. That is an interesting statistic all by itself, but it takes on added significance when you consider annual global fish production surpasses cattle, poultry, eggs and sheep combined. We sure like to eat a lot of food worldwide and it would seem fish are the clear favorite. As you ponder this information, consider that this time of year is also the time when bankers everywhere throw out their nets and cast about for a comprehensive budget, so we thought we would help things along.

A recent study of thousands of companies indicates where executives plan to spend money in 2010 and where cutbacks are most likely to occur. This data not only gives insight into community bank customers, but also the banks themselves.

Topping the list of budgetary line items most likely to increase next year, nearly 40% of executives said they plan to spend more to improve customer relationship/profitability management. As costs have risen and profitability has become more strained, companies are clearly working to get a better handle on which customers are critical to success and which ones may be costing the organization dearly.

Second in line, 38% of executives said they expect health care costs to rise and are budgeting accordingly. Given so much emphasis on this costly item, it is no wonder that executives are focused closely on controlling expenditures in this area.

Next up, about 30% of executives said they expect to spend more on technology in 2010 than in 2009. As banks focus on leveraging up scarce resources, technology becomes ever more important. The key here is to ensure technology isn't being built just to build it, but rather serves a specific purpose, is customer driven and generates a lift of multiple times any cost.

Rounding out the top 5 in 4th and 5th place are marketing and compliance, respectively. Keeping customers in tune with the bank in such uncertain times is important to demonstrating ongoing strength, while ramping up compliance is a necessary cost bankers will need to increase even further next year.

That takes care of the 5 areas executives expect to experience greater spending during the budgetary process, but of equal importance are areas that will likely fall under the knife and see significant cutbacks. Times are tough and every penny counts, so executives in the study highlight these areas most likely to be cut.

Here, the biggest decrease indicated by 60% of all executives comes in the form of capital expenditures to include lower premises/branching expense. Companies are cutting back, so bankers in turn, will have a tough time originating new loans.

Next in order, executives said they planned cuts in hiring (49%), executive compensation (40%) and marketing (32%). While marketing spending was highlighted above as an area of increased spending in 2010, it is interesting to note some companies are focusing here as an area to save money as well.

As for hiring and compensation costs, expect more banks to focus efforts here as well, in an effort to control bottom-line expenditures as they maintain overall profitability.

Finally, 31% of executives said they expected to see reductions in employee education. Here we could not be more vehemently opposed to this direction, as we feel now more than ever education is critical to bank survivability. Since employees are the most valuable asset, education has never been more important given the rapidly evolving industry. While we expect community bankers to be more selective in choosing events, wholesale cuts make absolutely no sense.

No matter what you expect each department to catch in its net next year during this budgetary cycle, close scrutiny and challenging assumptions is key to success.

BANK NEWS

Discount Window

Effective Jan 14th, the FRB will cut the max term on loans from the discount window from 90 days to 28.

Privacy Notice

The Fed released an updated privacy model notices that will help banks clarify information sharing practices. At the core of the model is a form of notification that banks are encouraged to use, as it will give them a regulatory "safe harbor" against potential future notification issues. The final rule can be found at the following link:
http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20091117a1.pdf

Foreclosure Avoidance

A new study finds stressed homeowners who receive housing counseling are 60% more likely to avoid foreclosure and have their payments lowered significantly than those who navigate the process themselves.

Economy

A group of 50 economists' project unemployment will hit 10.5% before peaking, close to the highest level since 1948. They assigned a 20% chance for a double dip recession.

Recovery Timing

A report from Rutgers University projects it will be 2017 before unemployment dips back below 5%.

Economy

A survey by Grant Thornton finds 44% of CFOs say the economy will improve over the next 6 months, while 43% expect it to remain the same.