TURNING COMMUNITY ON ITS HEAD

by Steve Brown

We received some heated e-mails on yesterday's article, where we talked about how bankers' use technology and process to be more effective. Several bankers complained that they weep for the future where they are turned into "cyborgs." As scary as that sounds, that was our point - if the process is sound, we could be better off with technology than without it. In the age of sub-3% margins, banking needs do a better job controlling risk, while becoming more efficient at aggregating and managing customers. One of the topics at our upcoming Executive Management Conference in May (if you haven't registered yet, please note we are down to only 9 spaces left) addresses the changing face of banking. We will be discussing how community banking has radically shifted over the last 2Ys.

Today, we look to social media. Probably no other technology promotes such negative passion amongst bankers than social media. If you don't care what so-and-so is having for lunch that is your prerogative. However, to dismiss social media as an exercise in vanity would be missing the larger picture. As we mentioned yesterday, it is not the tool that it is important, but how you use it. Social media is now much more than a marketing channel, as it offers a different paradigm. Allow us to explain.

You call yourself a community bank and you think in terms of your local geography - but why? As we pointed out before, geographical correlation is one of the largest precursors to failure. A good management team in a credit stressed area will likely run into problems simply because the area is so distressed. Why not redefine what we mean by "community" in order to keep all the advantages of community banking (service, customer knowledge, etc.), but without the concentration impact? Enter social media.

The advent of online banking, remote capture and social media has allowed us to redefine community. Online communities now spring up overnight - doctors, high net worth individuals, businesses looking to expand, etc. The Move Your Money Project grabbed 30k followers in months, as people looked to move away from large banks. Banks that specialize in profitable customer segments, such as technology or professional services, will find a multitude of fertile "communities" enabled by social media. This goes way beyond popular sites like Facebook and Twitter, as banks can now target divorce lawyers on Divorce360, doctors on Sermo , technology on IdeaStorm or the mass affluent on Wikinvest. Online communities abound, waiting for a strategy.

Contrary to the complaint that social media is "superficial," we find the opposite. Bankers that have embraced the technology find that online communities can be more multifaceted and far richer than traditional relationships. Consider that the average bank traditionally touches their customer 1x per month. Through social media, banks can now interact with their customers weekly or daily. Instead of sending a statement, a bank can post a community event or a piece of economic data and receive immediate customer feedback.

This feedback has traditionally been unheard of in bank marketing. Social media enables a call to action around a common financial interest - such as health care, financial reform or a local event. Hundreds of customers can be mobilized or polled in hours vs. traditional one-to-one communication.

If your bank has a social media effort, send us an e-mail and tell us about it. We want to learn from your efforts, as we gather best practices. Tomorrow, we will talk about how banks are using social media for risk mitigation and knowledge synthesis. At the conference, we will be highlighting how banking strategy is now influenced by technology, including social media.

Technology is rapidly expanding a bank's reach - so much so that the definition of "community" takes on a deeper meaning. As such, we believe it's time to take social media seriously.

BANK NEWS

Less Capital Required

House Financial Services Chairman Barney Frank is urging banking regulators to finalize a proposal that would reduce the capital risk weighting on FNMA and FHLMC mortgage backed securities and other debt obligations to 10% from the current 20% level.

FDIC Expectations

Chair Bair noted on CNBC that the number of bank closures in 2010 will not greatly exceed last year (2009 had 140 closures) and would reach a high point in the 3Q of this year.

No Small Biz

Research finds banks with less than $10B in assets cut loans to small businesses at nearly a 13% annual pace in the 4Q, according to USAToday.

Flotation Device Needed

The chairperson of the TARP Congressional Oversight Panel projects nearly 50% of CRE mortgages will be underwater by the end of this year.

Citi

The Treasury announced plans to sell its 7.7B shares of Citi that it received as a result of the Capital Program. The Treasury essentially paid $3.25 per share and the stock is now trading at $4.18 for a $7.2B profit.

OREO

As of the end of 2009, 43% of OREO held by banks was due to defaulted construction and land loans.