

A WEAKNESS TO AN ADVANTAGE

by [Steve Brown](#)

Behold the Dum Dum lollipop. The Company that started in 1924 has 16 different flavors of suckers. With so many flavors, the company either had to run separate production lines or shut down the line while everything was cleaned. Since the Company never wanted to expend expensive capital for production lines that were not going to be used all the time, it chose to clean the machines each time. That is, until an astute manager hit on an award winning idea - create a mystery flavor. Instead of shutting down the line, the new flavor was just poured into the line. When the flavors overlapped and were mixed for a few hundred lollipops, new wrappers were added that dubbed the combination of flavors as a "mystery" flavor. To encourage fun, the wrapper challenges users to guess the combination of flavors. Not only was production increased 20% because lines no longer had to be shut down, but the mystery flavor is usually voted in the top 10 preferred flavors (Blu Raspberry & Cotton Candy are the most popular).

Contrary to their name, Dum Dum is a pretty smart company. It took a problem and made it into strength. Occasionally, we run into banks that do the same thing. They take excess capacity and turn it into an advantage. Given the economy, banks may want to get creative in how they handle expenses. Do you have unutilized office space? Turn it into an incubator for small business or provide it to customers that work out of their house but need an occasional conference room. For that matter, maybe allow charities to utilize the space when not in use?

How about excess capacity in a secure storage area? Turn it into an attribute to package with a business bundle to allow small business customers to archive documents. Do you have older servers and IT infrastructure? Utilize excess capacity to provide electronic storage services. For that matter, chances are you have a data recovery site. Why not strategically offer the facility to key customers located in a different geography on an "as available" basis. Should a customer have a fire or flood, a bank could make the site available on a limited use basis. That facility would be a great differentiator against competitors.

Then, there is the fertile realm of intellectual property. Community bankers have deep expertise in risk management, technology, vendor analysis, finance, conducting board meetings, strategic planning, customer service and human resources to name a few. If a bank has excess capacity in these areas, instead of layoffs, why not turn the liability into an asset and offer services or educational workshops on such topics for current and potential small business customers.

So remember, when you make something, you make something else. Find out where you have excess capacity or expertise, package it and either sell it or use it to a marketing advantage in order to gather deposits, generate fees or drive loan growth. There is no need to compete on price. If your bank hasn't done so already provide a unique service level to your business customer that differentiates your bank from the competition. To the extent you already have a fixed investment or small marginal cost associated with the additional service, so much the better. Every small business needs help and few have the expertise that bank's naturally possess. There's money to be made, banks just have to get as creative as a Dum Dum.

BANK NEWS

FDIC

The agency is proposing new assessment calculations for banks with over \$10B in assets. The premiums will be based on "forward-looking" measurements including Camel ratings, ratios relating to high-risk concentrations and the estimated loss the DIF would incur if the bank failed. Those 9 largest US banks will carry customized assessments, while premium determinations will remain the same for small banks.

Flat Rates

Richmond FRB President Lacker said in a speech yesterday that the economy is operating well below capacity and that "we are a long way from a full recovery." The comments suggest the FOMC will not raise interest rates for yet some time to come.

Foreclosures

A report by RealtyTrac finds foreclosure filings (default notice, bank repossession or auction sale notice) jumped 19% in Mar vs. Feb and nearly 8% from the same period last year. The national average was 1 foreclosure for every 352 homes. Compared to that level, the 5 highest states in order were NV (1 in 76); AZ (1 in 144); CA (1 in 144); FL (1 in 149); and UT (1 in 224).

Loss Allowance

Moody's reports bank loan loss allowances reached a record 3.7% of total loans in Dec, more than 2x the average level since 1948.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.