RAFTING DOWN THE BANKING RIVER

by Steve Brown

River rafting can be fun, but it can also be very dangerous. To keep track of just how dangerous, an international scale was created that breaks rivers into various "classes" of difficulty. The scale is not linear, nor is it fixed and the class of a river can change with the level of water flow. By type (and skipping some), a Class I is considered easy - with small waves, clear passages and no major obstacles. A Class III, meanwhile, is considered difficult - there are many waves that can be high, rocks, rapids can narrow and expertise in maneuvering is needed. A Class VI is considered to be "unraftable" and is beyond extremely difficult - it used to be these rivers were considered too difficult to run, but experts (and crazies) in kayaks have recently been filmed navigating some of these near-waterfalls despite huge rocks and fast currents.

As with rafting, community bankers are paddling as fast as they can, as they try to navigate a treacherous industry river. White caps and rocks are all around and community bankers are struggling to reinvigorate business lines, close branches, manage costs and basically ride things out to reach calmer waters. All 2,000+ pages of the new financial regulation bill will soon become law and bankers will have to do even more to figure out how to respond, what impact it will have on the industry and prepare for the next examination process.

Given all of these issues, we thought community bankers might like to get some updated information on what customers are looking for these days and what banks are doing to respond.

Some banks segment customers in an effort to boost efficiency and productivity. The theory goes that if you know who your best customers are, you can focus scarce resources to generate more profitability for the bank (or conversely identify and drive out costly customers). A new study finds about 37% of financial firms formally segment customers into groups, while 17% don't and don't plan to do so. The remaining 46% don't have a formal program or approach, but are planning to do something about segmentation eventually. Done right, segmentation is one way banks can focus energies on providing the best solutions to meet client needs. The results of this effort are greater product delivery efficiency, increased employee productivity, enhanced product penetration, lower operating costs and happier customers.

Customers have also moved online in a big way. In fact, a recent survey found 71% of consumers that looked for a new checking account began their search online. In yet another study by J.D. Power, large national banks are better than other banks at acquiring customers online. These banks acquired 70% of prospective shoppers who considered using them for a new account or as a new primary financial institution. That was almost 19% more effective than other banks. A major driver for this difference - 24% said their primary reason for selecting the large bank was because of a promotional gift/cash award or an attractive short-term interest rate. Equally interesting within the survey is the stickiness factor. The study found that just 13% of customers who selected a bank for a reason other than a promotional award or an attractive short-term interest rate (such as branch proximity or a positive customer recommendation), said they "definitely will" or "probably will" switch banks again in the next 12 months (about half the percentage that selects a bank based on award or rate).

As with river rafting, there are many risks, currents and undercurrents in banking. As you continue to navigate to avoid the rocks, understanding how consumer and small business owner habits are evolving is just a good idea (like wearing a helmet on a fast moving river).

BANK NEWS

Branch M&A

Legends Bank ($322mm, TN) has entered an agreement to purchase a branch from Red Mountain Bank ($352mm, AL) for an undisclosed sum. Included in the deal is $24mm in deposits.

Fin Reg

While we look for the Bill to pass the House today or tomorrow, it appears that the Senate vote will be delayed until after recess, as the votes (on both sides of the aisle) are not there for passage.

Bank Capital

The Senate begins debate on H.R. 5297 that would create a $30B fund for community banks that could provide banks up to either 3% (for banks between $1B and $10B) or 5% (banks under $1B) of risk-weighted assets as capital in exchange for an increase in small business lending.

Fannie Rules

For strategic defaulters and those who do not seek workouts, Fannie Mae's current rules prevent these borrowers from receiving a new mortgage backed by the institution for 7Y. If a minimum down payment and credit score are met, the waiting period is 5Y. Fannie Mae announced that in October, any defaulted borrower that did not seek out servicers and did not retain documentation of extenuating hardships will be subject to this 7Y probationary period.