

ANCHORS AWAY

by [Steve Brown](#)

Summer travel is in full swing, which is probably the trigger that got us thinking about how much we travel and how many discussions we have with community bankers throughout the country in a given year. Whether that travel is virtual through email, on site visitation, a phone call, or whatever, we like to talk to community bankers and try to solve problems. As part of our problem solving process, we also try to avoid built in human psychological biases and keep an open mind. We have found over our careers that a heavy dose of curiosity, listening to our customers and having a deep desire to solve problems can be a potent formula for providing solutions.

One critical component of having an open mind is a continual effort to avoid bias in our thinking. We try to be acutely aware of innate human tendencies toward different biases, in order to help free our thought processes and open up alternatives to solve problems. One such bias we explore today is something called "anchoring." As with a ship's anchor, psychological anchoring is a cognitive bias that describes the human tendency to rely too heavily, or "anchor," on one trait or piece of information when making decisions. As humans, we like to be attached to something when evaluating it in a broader context. The problem with anchoring is that we do it unconsciously in most cases, so it is hard to detect and even harder to avoid. We will even show this bias when the reference point we are anchoring to has no logical relevance to the decision at hand.

We will go through some examples of anchoring in a moment to help make this clearer, but before we do, it is particularly important to know that research shows people tend to gravitate toward anchoring when dealing with a new concept or situation. As humans, our initial judgment about something new is grounded in our prior experiences. That means we carry with us a bias that may prevent us from deviating from our initial position - regardless of new information to the contrary.

Examples of anchoring are many, but some of the most obvious are based on price. For instance, when selling a home, a seasoned real estate agent may start with a higher list price as a way to negotiate. Buyers "anchor" to that initial price, so when a lower price is offered people think they have received a "deal" and are more likely to buy. The only moving part as a determinant for value in this example is the initial price, which is clearly not enough, yet cognitive anchoring bias drives the decision making. Another example of this can be seen in almost identical fashion when buying a car (high initial price on a car 'loaded with options' that then is reduced to entice buying behavior). If these are not enough for you, consider the dot com bubble (everything must go higher - even sock puppets), the credit crisis (AAA means extremely low risk - despite the prevalence of liar loans underlying such investments), and many types of lending (many lenders are avoiding originating loans altogether right now, given higher charge offs and massive regulatory pressure to increase reserves/reduce concentrations).

There are truly countless examples, so we must be careful to avoid falling into this trap. About the only way we have found is to think about anything new the same way a small child would do so - with wonderment and a deep curiosity. Evaluate new things from a variety of perspectives and try diligently to avoid basing any decision on one or two anchor points.

BANK NEWS

7 Banks Closed (103 YTD)

On Friday, the FDIC closed: 1) Sterling Bank (\$408, FL) and sold it to IBERIABANK (\$8.7B, LA). IBERIABANK acquires all deposits for no premium and virtually all assets under a loss share. 2) Crescent Bank (\$1.0B, GA) was sold to Renasant Bank (\$3.6B, MS). Renasant will purchase all deposits for a 1.0% premium and essentially all assets under a loss share. 3) Williamsburg First National Bank (\$139mm, SC) was sold to First Citizens Bank (\$8.5mm, SC). First Citizens buys all deposits for a 0.5% premium and nearly all assets under a loss share. 4) Thunder Bank (\$33mm, KS) was sold to The Bennington State Bank (\$357mm, KS). Bennington obtains all deposits for no premium and practically all assets. 5) Community Security Bank (\$108mm, MN) was sold to Roundbank (\$222mm, MN). Roundbank assumes all deposits for a 0.89% premium and nearly all assets. 6) SouthwestUSA Bank (\$214mm, NV) was sold to Plaza Bank (\$178mm, CA). Plaza acquires all deposits for no premium and nearly all assets under a loss share. 7) Home Valley Bank (\$258mm, OR) was sold to South Valley Bank (\$600mm, OR). South Valley assumes all deposits for a 1.05% deposit premium and nearly all; assets under a loss share. For more details: <https://biganalytics.bancinvestment.com/>

Euro Stress Test

The results came out late Friday and all but 7 of the 91 banks passed. Over the weekend there was lots of talk critical of the quality and comprehensiveness of test.

Investing

According to Financial Advisor, studies show bonds still have the lowest historical volatility of any asset class other than cash.

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