MOBILE ANSWERS ON MANY SUBJECTS

by Steve Brown

Did you know that 25% of homes are cell phone only now and that the number was only 11% in 2006? Meanwhile, about 33% of people under the age of 35 and 50% of those aged 25 to 29 only have a cell phone. Even more interesting - 63% of adults living with an unrelated adult and without children (i.e. roommates) and 40% of renters had only cell phones. We are truly morphing into a mobile society. Speaking of staying mobile in banking, some time back we asked our readers to send in ideas and subjects you wanted us to discuss in this column and we were inundated. Today, we do our best to knock some of those out, so look for yours below.

Q: What do you do when you find yourself in the position that you stress test the loan portfolio and then see you are not going to have enough capital? A: The most common practical and immediate solutions in this "capital short" marketplace are to shrink the balance sheet, followed by lowering concentrations. Over the longer term, increasing core earnings (lower funding cost, controlling expenses and increasing fee income) all offer offsets to needed capital. Contingency funding procedures need to be set up ahead of time, and implemented before a bank gets too far into its capital problems. Credit issues kill capital but liquidity closes the bank.

Q: Everyone is seeking an alternative to concentrations in the loan book these days. What are some of the benefits and risks of banks doing asset based lending? A: Benefits are primarily related to return & assisting customer's financing needs. Risks are related to the general lack of lending expertise in the sector (therefore a tendency to under-price and under-manage the risk) and the ability to adequately understand the needs/requirements of properly valuing the collateral and its potential liquidity in the marketplace (if conversion to cash is required to repayment).

Q: How is a community bank going to compete with larger banks when it comes to loan pricing? A: Loans are unfortunately often sold as a commodity; therefore competition will be twofold; 1) effective funding cost and 2) service/local presence to the client. As with any commodity, effective pricing from the borrower's standpoint can easily be compared (rate/term shopped) while funding/treasury services are not as comparable (thus leading to more room for markup/profit). Selling/pricing service to the client is also not easily shopped/valued by the borrower. The bottom line is to capture and then cross-sell heavily to reduce costs/increase profit. In the alternative, try to structure your sales process to include heavy advisory and variations in loan structure to move your lending operation away from a commodity-like model.

Q: What problems can occur when you use the data in the Summary of Deposits (SOD) report provided quarterly by the FDIC? A: One critical weakness in this report is that it includes all brokered and other wholesale deposits in the home office location for a bank. This can significantly distort the apparent market share information if these non-local deposits are of significant size. The SOD counts all deposits and does not differentiate between profitable ones and those that are 100% rate driven and non-core. Profitability is more important than market share so don't lose sight of this.

Q: Given the credit environment, it would appear a number of banks are getting into government guaranteed lending. What are some of the risks/rewards? A: Rewards are keeping growth alive and replacing lost customers/assets. Risks will only become apparent in the future as borrowers that are not creditworthy may lead to negative consequences. If the bank's due diligence in both underwriting and ongoing credit management is not strong, the guarantee will likely be removed, leaving the bank holding a loss on a poorly underwritten loan with potentially weak credit quality. If that happens, the ugly case results could be very high loss given default and cost of disposal. As with anything, be prudent and cautious when expanding.

Q: Is community banking relevant under the "new normal," where margins are squeezed, competition is heating up with the big banks? A: It is highly relevant. Large & regional banks only want the low hanging fruit that fits into their prepackaged product sets, while community bank can provide better service levels and more customized solutions to clients (no cookie cutter solutions). Additionally, there many underserved market areas and community banks thrive in these communities.

BANK NEWS

Homeowner Rate

According to the Census Bureau, the homeownership percentage remained unchanged from 2Q and came in at 66.9% in 3Q. This is the lowest level since 1999 and down from its high of 69.2% set in 2004.

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