AS STRANGE AS BANKING THESE DAYS

by Steve Brown

You can't make this stuff up. While driving around this weekend, some guy who appeared to be 200 years old pulled up behind the car and had something hanging from his mouth. Upon closer look, it was a 2 foot string of dental floss in his teeth! While not

only disgusting to look at, it was also shocking. Who flosses while driving? How do you drive when both hands are busy working to free some long-lost corn? Where does this guy bank? All of these questions flooded in, but there were no easy answers.

In like fashion, most bankers are searching diligently for easy answers, but none seem to appear. Sure, the Dodd-Frank Act drops an estimated 20,000 pages of new regulation to read on every community banker (about 40 reams of paper) and it delivers 760% more legal heft than GLBA, Sarbanes Oxley, the Interstate Banking Act and Glass-Steagall combined. To be sure, no one said banking would be easy when you are operating in the worst credit environment since the 1930's. It is certain that times are tough, but there are also common sense actions community bankers can do now to rebuild the bank and thrive.

Start by right-sizing the funding base. Carefully analyze your funding to determine which pieces are coming from local sources and which ones are also the least expensive. This is where the value comes from in mergers, so take the time to analyze things now and move to squeeze out more profitability by managing the mix and pricing more closely. Once you have figured out your core funding mix, you will then have the basis for the asset side of your equation. Compare the duration and ultimate maturity structure of your funding against your assets and be sure to stress test it to see where the wheels might fall off. Then, if certain assets aren't fitting the picture, seek to remove them from the balance sheet entirely or restructure them to better fit the funding mix. These two steps sound quite simple and straightforward, but to do them right you have to get into the data weeds and really dig in. This provides the basis for a strong core bank that underlies the entire operation.

Next, identify your core competencies and try to identify the top 5. Then, take a close look at those things that are not your core competencies. Here again, identify the top 5. Now, keep your core competencies and focus on getting rid of your non-core competencies through outsourcing. Carefully search for partners that can support your needs, have good capabilities and can provide additional help, given how trying things are going to be for some years to come. Regulators are demanding more risk management at banks, so you are likely to have little free time as 2011 unfolds. Focus on things you just don't like doing and find a way to get them off your plate. You will not only feel better, but will be better positioned to react faster to industry changes as they occur. There are only so many hours in the day and your management team can only handle so much, so don't try to do it all or you will simply get burned out. The next few years will be a doozy, so our advice is to simplify by eliminating things that just aren't core to your competencies.Next, wrap the entire bank in risk management even if you have to do it one thin layer at a time. Going forward, risk management will be an integral part of community bank lending and other activities, so start down the road now.

Finally, focus on remaining efficient, customer focused and above all, profitable. Tough choices are mandatory and part of banking, so prepare the institution to be as flexible as possible. Thinking now about areas of improvement, where the belt could be tightened even further and remaining focused on long-term objectives will eliminate the need to pull on a string when things get tough and problems are really wedged in there.

BANK NEWS

Closed (146)

Darby Bank & Trust (654mm, GA) and Tifton Banking ($143mm, GA) were closed with most deposits and assets being assumed by Ameris Bank ($2.4B, GA) for no premium and approx. 70% under loss share. In addition, Copper Star Bank ($204mm, AZ) was closed with Stearns Bank ($1.2B, MN) assuming deposits for a 1% premium and about 80% of the assets under loss share.

Basel II

On Friday the G20 approved the new Basel III capital standards. For large int'l banks, starting in 2013, minimums are set at 4.5% common equity to risk-weighted assets, 6% Tier 1 capital and 8% total capital. There is also up to a 2.5% buffer that can be added in each category should risk warrant.

Overhang & Oreo

The combined real estate owned inventory of FNMA, FHLMC and the FHA jumped 24% in the 3Q vs. the 2Q and has risen 93% YOY. This level will increase the overhang and weigh down home prices.

Going BK

The Administrative Office of the U.S. Courts released a report that indicates the year ended Sep 30 2010 delivered 14% more non-business bankruptcies than the same period in 2009.