SCARCE RESOURCES AND OBJECTIVES

by Steve Brown

One exercise many banks conduct at strategic planning sessions is to figure out what their strengths, weaknesses, opportunities and threats are. This "SWOT" analysis, while interesting and sometimes useful, isn't most likely your best use of time. Time, as it happens, is one of life's scarcest resources. You can get more money, more love, more friendship and more material things; but you can't get more time.

Time is in short supply in the business world. Strategic planning, one of the most important job aspects of a bank CEO, is often short of the time that should be devoted to it. As such, most banks, when conducting their SWOT analysis, rarely include their strategic planning process as a strength. Usually, this is because many banks end up spending their limited hours devoted to exercises like SWOT, instead of activities that can really have an impact.

Instead of spending senior management's time on SWOT, we say delegate it to middle management and have them present it in no more than 20 minutes. Rarely is there enough insight in a SWOT analysis to drive strategic direction. As such, while it is important to recognize core competencies and weaknesses to devote more resources to, it is better to identify goals and what resources are needed to accomplish those goals. Two activities that we highly suggest during strategic planning are the prioritization of objectives and the identification of the value of your resources. While both of these activities won't drive strategic direction, they will help set the stage to highlight what is important to the board and management.

Ranking major objectives, in our opinion, is mandatory to ensure management has a clear idea on how success is defined. This is to say that on any given day, management must make choices on whether to maximize net income, ROE, ROA, customer satisfaction, credit quality, employee satisfaction, margin or any number of other possible metrics. Being crystal clear on what is important is critical, when utilizing a framework to make choices. Do you book a loan that will hurt margin if credit quality would be improved? You do if credit quality is more important than margin. Do you start charging for free checking? You do if earnings per share are more important than customer satisfaction. While management teams want to improve every metric that is rarely possible. Good management teams have a clear ranking of what they need to achieve and what metrics are most important.

Next to laying out objectives, understanding your resources and the cost of those resources is equally important. All management teams should know what their most valuable resources are and which ones are inexpensive. For some banks, capital is the most precious resource. For others, it might be credit quality, regulatory standing, brand, customer loyalty, or executive management talent. It is important to understand your top 5 scarcest resources, because those are the ones that you want to spend the most time protecting and maximizing. For instance, if capital is truly your scarcest resource for 2011, then making sure that capital is deployed into the most productive loans is critical to success. Why risk capital on a loan to a contractor, car wash or residential home that returns a risk-adjusted 5% to 7%; when that capital could be better deployed in making a loan to a manufacturer that can garner an average of a 17% return? However, if earnings are your scarcest recourse, an opposite allocation may occur. Oftentimes, human resources are a bank's most valuable asset. In this case, management wants to make sure resources are retained and other resources (like capital) are devoted to them so that they can thrive.

A large part of strategic planning is an exercise in the allocation of resources. By knowing the priority of objectives and understanding what resources you have, management can maximize and better control the scarcest rest of them all - time.

BANK NEWS

Closed (149 YTD)

Regulators closed 3 banks on Fri including: 1) Gulf State Community Bank ($112mm, FL) and sold it to Centennial Bank ($3.1, AR). Centennial acquired 5 branches, all deposits (no premium) and nearly all assets (75% under loss share). 2) Allegiance Bank of North America ($107mm, PA) and it sold to VIST Bank ($1.3B, PA). VIST purchased 5 branches, all deposits (0.50% premium) and essentially all assets (81% under loss share). 3) First Banking Center ($751mm, WI) and sold it to First Michigan Bank ($1.3B, MI). First Michigan assumed 17 branches, all deposits (0.50% premium) and virtually all assets (69% under loss share).

Major Investigation

Federal authorities are reportedly wrapping up a 3Y nationwide investigation into insider trading expected to lead to arrests of investment bankers, hedge fund managers, mutual fund traders, consultants and analysts all over the country according to the WSJ. This could be the largest crackdown in history.

Settled

Wells Fargo will reportedly pay Citigroup $100mm to settle claims related to its 2008 acquisition of Wachovia.

Conforming Limit

FNMA and FHLMC have announced conforming loan limits will remain unchanged through Sep. 2011 at $417,000 for single-family homes (and up to $729,750 in some high-cost areas).