

AVOIDING DISASTER

by [Steve Brown](#)

You may not regularly be thinking about it, but the data shows around 40% to 60% of small businesses never reopen again after a disaster. Since so many community banks do business with small businesses, we thought you might like to know about a web site that has been set up by the SBA to help in this regard. It gives business owners tips and education on disaster planning and preparedness. To help your own customers become more aware of this problem and assist them in developing even a rudimentary business continuity plan, we share the site address so you can do so too (www.preparemybusiness.org).

To avoid disaster in the next few years, community banks will need to continue to adapt. Not only will the Dodd Frank act dump a truck full of new regulation at the front door of your headquarters, but structural changes are also occurring throughout the industry as the economy struggles to find footing. Here are some areas we think bankers should keep an eye on as you prepare, test and otherwise deal with these issues.

Look for banks struggling to improve earnings to sell off non core assets in the next few years. More capital is now required just to do business and banks will need to right-size their organization to move forward. Community banks will have to determine which branches are performing the best and which ones aren't as part of any plan to improve performance. In fact, Citigroup has already announced a plan to close 330 branches and Bank of America has indicated it will shutter 610 branches (10%). Other major banks are reportedly in the planning stages as well. Whether doing so as a way to save costs, boost capital, or simply because customer banking habits have shifted more toward online and mobile devices; branch closures will increase in the coming years.

Expect to see more banks seeking out M&A partners over the next few years as well. This isn't surprising, when you consider how exhausted Boards and management teams are after having survived one of the biggest crises in 85Ys. That recent history, combined with a future of increased regulatory pressure, more difficulty in driving organic growth, a decreased ability to leverage, lower fee generating activities and other factors have many considering a merger. Certainly, the burden of increased regulatory costs, a small product set and difficulty in modifying the existing banking platform will drive many to simply throw in the towel. These problems and the industry for that matter have become complicated and fresh memories of how brutal banking can be at times will push industry consolidation for the next few years. As such, look for bankers to be focused on boosting franchise value by having a clean loan portfolio; building core deposits from the community; limiting wholesale funding usage and holding a simple investment portfolio.

Local businesses will continue to struggle as spending remains subdued and the municipal mess works through the system. On the municipal front, state budget deficits are projected at \$200B, pushing defaults higher in 2011. Given a lack of funding from Congress and ugly structural issues, states will move to raise taxes on businesses and consumers, while cutting services more deeply. Unfunded pension liabilities alone amount to \$1T and municipal revenue growth is soft because of the weak economy. This problem won't go away soon and the financial spigot of money from Congress goes away in June, so the summer could get downright nasty. Bankers should keep an eye on

customers with businesses tied into municipal activities and monitor deposit balances related to municipalities during this period of strain.

We still have issues to work through as an industry over the next few years, so having a good "disaster recovery plan" for business lines, customers and industry events is a good step to take in order to be more prepared.

BANK NEWS

Bank Closures (7 YTD):

Regulators closed 4 banks on Fri: 1) United Western Bank (\$2.1B, CO) and sold it to First Citizens B&T (NC). First Citizens gets 7 branches, all deposits (no premium) and a loss share on 54% of the assets. 2) Bank of Asheville (\$195mm, NC) and sold it to First Bank (NC). First Bank gets 5 branches, all deposits (no premium) and a loss share on 85% of the assets. 3) CommunitySouth Bank and Trust (\$441mm, SC) and sold it to CertusBank (SC). CertusBank is a newly formed subsidiary of Blue Ridge Holdings. CertusBank gets 6 branches, all deposits (no premium) and did a loss share on 48% of the assets. 4) Enterprise Banking Co (\$441mm, GA) was placed into an FDIC created entity called the Deposit Insurance National Bank of McDonough, which will remain open until Jan 28 to allow depositors to find another bank.

Small Business

The SBA indicates 41% of small business owners are unable to secure adequate financing.

Customer Focus

Banks seeking customers should know that the Census Bureau is reporting 10 of the 20 fastest growing occupations are health care related.

IT Security

Experts say banks will continue to expand use of biometric authentication for mobile and online clients as they tighten security to support more mobile transactions. Fingerprint, voice and face recognition systems are expected to become very common.

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