LISTENING AND LOOKING MORE AT LIQUIDITY

by Steve Brown

A study done by researchers from Taiwan University finds customer satisfaction increases when a manager intervenes in a problem, listens to the customer, tries to clearly understand the situation and deals with it directly. Unfortunately, the research also

finds that about 25% of the time, businesses fail to do this simple thing to keep clients happy. This is perhaps yet another thing to consider when customers complain about something within earshot of a branch manager or other executive.

Speaking of listening, we try to do that at every conference we attend - particularly when regulators are speaking. Over the past year or so, we have been hearing more and more about liquidity in the banking industry. While the floodgates are still open from the Fed, that will someday end and regulators have been highlighting this in some speeches we have read or heard and some conferences we have attended. Community bankers that begin to focus efforts on overall liquidity are in a better position to deal with this emerging issue head on.

For starters, banks should take a look at their assets and liabilities from a high level. While duration may be difficult to find, most quality ALM systems can produce this, so calculating a mismatch a good first step. Take a look at your reports and see whether your assets have become longer, while your liquidity has become shorter. When rates fall, as they have during the crisis, customers extend their loans. At the same time, the data shows people have been keeping their deposits short, so this combination is critical to understand.

When assets extend, as banks seek to derive margin, the risk seen in a scenario where the Fed is pulling liquidity out of the system can be very impactful. Funding costs rise, loans are locked down for an extended period of time and debt coverage is squeezed along with profitability. Getting a handle on both the liquidity impact and the interest rate risk impact is important. Since these two concepts are completely different and we often see confusion, it is important for banks to get an early start so you have time to react and potentially even modify your balance sheet structure as needed.

Another thing to consider is that the landscape has changed sharply. The old way of doing business probably won't cut it anymore and no one has been at these low levels of rates in their banking careers. No one out there can tell you what is eventually going to happen, so testing, re-testing and stress testing liquidity, interest rate risk and credit risk are critical components to understand BEFORE gyrations begin. This allows you to better work down concentrations that impact the bank the most.

Finally, no matter what happens, you need to have a decent contingency plan. That takes work, but some of the best components to incorporate include: metrics, quantification of funding sources, common contingency scenarios, triggers, stress testing, warning signals, etc.

If you haven't signed up for our EMC Conference, this May in San Francisco, you should, because we will be covering these issues in more detail, providing samples and giving you concrete components you can take back to your bank and execute on when you return. Stop going to conferences that just spew general ideas and get more details by attending ours. Register now to save, however, as our Early Bird registration discount ends this week.

Related Links:

EMC Conference

BANK NEWS

Reward Program Fees

A recent ABA survey shows 81% of bankers said they plan to cut debit reward programs if debit card interchange fees are capped at their proposed levels. 81% also said they would increase checking maintenance fees as a result of lower debit interchange fees. After those 2 options, bankers said they would start charging or increasing fees on other programs, doing away with free checking and/or cut costs (including closing branches).

Housing 2010

New housing construction hit its lowest level in 40Ys; at the current pace it would take 9.5 months to work through existing homes listed for sale; prices fell 30% from the peak of July 2006; 10.8mm homeowners owed more on their loan than their homes were worth (about 22.5% of all borrowers); and analysts are projecting prices will fall another 5% to 10% in 2011 before stabilizing.

Laid Off

A study by Leadership IQ finds people are let go from their job for various reasons in order that include coach- ability (26%), emotional intelligence (23%), motivation (17%) temperament (15%) and technical competence (11%). The data indicates that you can be really good at something technically, but if you can't take direction things could get difficult.