SMILING BABIES AND STRATEGIC PLANNING

by Steve Brown

Nothing makes a person feel good like the face of a smiling baby. Perhaps that is because studies show one trait of happy people is that they believe they set their own destiny. While babies don't understand their destiny, when all you have to do is worry about when you are going to eat, sleep and fill a diaper, the world is a pretty nice. Unfortunately, bankers need to look to the future which may explain the lack of smiling bankers permeating the market. However, it is comforting to know that with a good strategic plan, bankers can be in a little better control of their destiny.

Strategic planning for bankers is just around the corner. As many banks regain their forward momentum, strategic planning is taking on a greater emphasis than in the past. As markets continue to get back to normal, opportunities abound. Changes in cash management, mortgage lending, capital, technology and costs will hurt banks that are not prepared. Strategic planning isn't a luxury these days, however, but rather a necessity.

Here is how the data breaks down for community banks. In general, surveys find slightly more than 90% of banks include their board in the process. The vast majority of board's review and set budgetary goals, corporate goals and are there to discuss ideas, strategy and even tactics. The key question these days is - how much more risk do you want to take on? The wealth of experience at most bank boards is strong, so asking what can be done to help the company may not be a bad idea - particularly in an environment when so much is already going on and so many stresses are already built into the system.

One key suggestion we have for community banks is to get out a questionnaire to your directors in order to poll their opinions in an unbiased way. This will help frame concerns, issues and thoughts on bank direction. Remember to frame the questions in terms that will stimulate conversation and help drive the refinement of a 3Y to 5Y strategic plan. This plan will commit in writing, the long term goals, objectives risks, rewards and resources required to execute the plan successfully.

Strategic plans should be just that - both strategic and a plan. A strategic plan should be more of the same and shouldn't be a glorified budget. A good strategic plan clearly indentifies what opportunities the bank will take advantage of and what resources are required to achieve the Plan. When all is done, the Plan, high-level budget and other components should be routed to all. The more people that understand where you are going, the more people will help get you there. In addition, set aside some time in the future to revisiting the issues at least 4x per year in order to make sure you are executing according to plan or if a revision is required. As part of the planning process, it is also helpful to review any education that directors might need in order to help management evaluate the plan. Banking is changing rapidly and the nuances are more important than ever. Surfacing areas of needed education, like on TARP, SBLF, M&A, capital raising or other items will be key to helping the board understand the plan.

Some bankers we talk to say strategic planning is a waste of time because once the process is done the plan is placed on a shelf and never utilized again. We understand the issue and perception of spending time meeting as a group, talking about all the things the company could be doing and then never doing it, but that misses the point. Strategic planning works when bankers use it to set realistic (and clear) goals; include the ideas of stakeholders and employees; define explicit action steps the company will take and is realistic about goals and objectives. A good strategic plan is most effective when it captures goals and action steps the company will take to achieve its objectives.

As we start the planning season, this time around, think about where you really want to go, how you plan to get there and what will be needed to make that happen. Then, work through the vision, commit it to paper and circulate to everyone. A baby can make you smile, but a good strategic plan that works can deliver a feeling only a community banker can truly appreciate.

BANK NEWS

Brokered Deposits

The long awaited study mandated by Dodd-Frank is more supportive of brokered deposits than expected. In short, the current status quo is maintained when it comes to brokered funds. The FDIC states that brokered funds support essential liquidity and the statute allowing them should not be repealed. The study highlights the fact that regulation has not kept up with the internet, problems arises with brokered market access when banks fall below well capitalized and brokered funds do play a role in helping banks take on more leverage than they should have (and increasing FDIC losses). While we are further analyzing the study, it can be found at:
http://www.fdic.gov/regulations/reform/coredeposit-study.pdf

FDIC Risk Officer

Stephen Quick takes the position as FDIC's first official "Chief Risk Officer." Mr. Quick previously was a director at the Inter-American Development Bank, a $100B institution to stimulate credit in Latin America.