SEEING THROUGH AGE AND GROWTH

by Steve Brown

One bad part about growing up and getting old is the fact that your eyes go. If you are a reader of this publication and you open the pdf version to find that the Zoom feature is set to 200%, it is because you, like us, probably can't read anything printed in letters that are smaller than Lebron James. This issue is further exacerbated by the fact that the person that decorated our office, while excellent at interior design, must have skipped the class on lighting. If you stop by on any given day, most of senior management can be seen holding documents with their feet, in order to gain the added distance to read clearly. This is truly awkward in front of clients, but it is the only way we can read - particularly when it is cloudy outside.

Speaking of growing up and getting older, many banks will be readdressing their growth at upcoming strategic planning sessions. While it will be easy to blame the lack of loan growth at the bank a weak economy, we often find that it is the culture of the bank that poses the greatest limitations. Recently we visited a FL bank that struggled with loan growth back in 2009 because of the economy. Management correctly identified that their calling officers were spending so much time on administrative tasks, they were only devoting 20% of their time actually calling on customers. To solve the problem, the CEO hired 2 additional loan workout people, spun 4 lenders out into a separate division, hired more underwriting staff and focused the group on a niche market. While many bank managers would see the extra staff and overhead as a redundant drag on earnings and creating a more complex organization, this CEO felt the separate business unit's autonomy and focus would drive growth. Sure enough, the division produced double digit loan growth and developed a more streamlined underwriting process that the rest of the bank adopted. For 2Q, earnings for this bank are well above their peers. While a separate division or subsidiary isn't for every bank, managers should consider it when a new initiative is dramatically different than past efforts.

Additionally, this bank indentified that its loan underwriting group was not scalable. As such, loan underwriting presented a natural "cap" on growth. As part of the new process, the bank hired an outside consulting firm to handle the production of loan write-ups. While outsourcing lending is verboten at nearly all banks, this CEO found that not only did it allow for a more scalable process at a more flexible and lower cost structure than keeping an in house staff; it actually produced more accurate, quantitative and more balanced analysis. While it is too early to tell historical delinquency rates, so far the portfolio (now just 2Ys old) is performing well and valuations are above peers.

Finally, the CEO understood that growth requires change. To drive home the point and get people out of their "silos" the CEO mixed departments up right from the start. Not only did he forewarn all employees that change is coming, but to drive home his point, he started a 1Y rotation program where a core group of staff was moved around to different departments. Operations people were found in technology, credit admin were seen in risk and some internal support personnel were moved to the front lines to sell. The "Change is Good" program was disastrous for the first 6 months as people were retrained, however it did the unexpected over time. Not only did staff have a better appreciation for other departments, but the cross-training served to improve processes across the board. More importantly, employees found latent skills, which made for higher employee satisfaction levels and greater productivity.

Dealing with limitations to growth is a difficult task, but sometimes, like reading in your office, you need more distance on the problem to see clearly. Our point that growth may be limited by more than your environment and that structure, the lack of scalability and culture could be inhibiting your bank from reaching its full potential.

BANK NEWS

Less Lending

The Fed reports loans at commercial banks as of July 27 were down 0.4% compared with a year earlier.

Easier Credit

The latest Fed quarterly survey of bank lending officers finds most banks loosened credit standards on most types of loans in the 2Q due to "aggressive competition." The Fed indicated banks continued to ease lending standards and most terms "on all major types of loans other than loans secured by real estate over the past three months."

Underlying Strength

The ABA is reporting that analysis shows the banking industry averages for all 3 regulatory capital ratios have risen to historically high levels and 85% of banks were profitable in the 1Q (up from 65% in the 4Q of 2009).

Expanding

The WSJ is reporting that recent acquisitions now make TD Bank the 10th largest retail branch network in the US, with more locations in our country than in the bank's home country of Canada.