

STRATEGIC PLANNING AND HUMAN DECISIONING

by [Steve Brown](#)

People make bad decisions all the time. Some happen because of arrogance, some are due to inattention and others are just because we are wired that way. We jump on this subject, because you might need it at your upcoming strategic planning event when you are delving into the decision-making process. Because we are human beings, we have tendencies that can block creative efforts and lead to problems in the strategic planning process, so understanding them is important. For example, we all tend to seek out things that are familiar, because our subconscious works on pattern recognition. As long as we have plenty of memories or experience to scan, we can make sound judgments to what is being presented. When we don't have a deep experience base to draw on, we tend to connect dots that aren't really there. Because we are human, to properly test assumptions, we need to have sufficient experiences in order to make sound decisions. To determine whether we have enough experiences to make the call on a given subject when it surfaces, identify where your plan could fail and develop a list of uncertainties. Then, assess whether you have sufficient experience to judge them or need to do more research to avoid future problems. That said, we will point out that another issue that often surfaces is the human tendency to lean on past experiences, even if those experiences taught us incorrectly. That happens because our brain flags certain experiences as positive. When we think about a problem, those experiences are accessed and our original impressions form the basis for our biases. To make sure you have a reliable starting point, periodically test and retest your assumptions using as unbiased and objective an assessment process as possible. Someone around your strategic planning table is also probably prone to embellishment. These people can fall into the trap of making facts up to support their position, which is shockingly not that uncommon. In fact, nearly 50% of human resources managers say they have caught a prospective hire fabricating some aspect of their qualifications. Embellishment often starts with a small piece of truth that then evolves into overstatements, falsehoods and even deception. To avoid this issue during the strategic planning process, check all facts, prepare for the meeting by educating yourself on industry trends and probe statements that seem to be out of place to ensure you are on solid ground. Humans tend to think we are more important, skilled and experienced than we really are, so keep discussions candid to avoid damaging trust. Another area to work on is to strengthen the decision-making process. To do this, layer in additional data, bring in subject-matter experts, challenge assumptions and maintain an active dialogue process. You are all trying to make the bank a better place to work over the planning period, so staying focused is critical to success. Warren Buffet even suggests assigning someone as "an advisor against" doing something, to make sure all facets have been thoroughly explored and assumptions have been adequately reviewed and challenged. Finally, know what you don't know. Studies show that while we all think we know what we want; we really don't have any idea. We often don't recognize our preferences and we associate choice with freedom, so we strive to be different. The problem with this approach is that we also get overwhelmed. There are hundreds of possible decisions to make, there are already so many things in motion and regulation and customers are rapidly changing. To truly be successful and make sure you get the best results, acknowledge your biases and build a plan around a handful of key decision points. Then - execute, execute, execute.

BANK NEWS

Mortgage Rates

The benchmark 30Y conforming SFR rate is now below 4% (3.96%) for the 1st time in history. The 15Y rate is also at a record low (3.26%). While the previous low was during the 50's when mortgage rates hit a low of 4.08%, we point out that the longest mortgage back then was 25Ys.

Volker Rule

The Dodd-Frank provision limiting proprietary trading at large banks leaked and was posted on the internet late yesterday. Considering the preamble itself is 200 pages, some bankers were up all night going through it in order to prepare reports for this morning. In short, the draft strictly defines trading for the bank's own account and goes all the way to eliminate bank prop trading accounts, hedge and private equity funds.

Student Loans

Delinquency rates (60+ days) are slowly increasing and now stand at 4.9% for the sector, or triple that of 2007 levels.

Home Ownership

New census data show homeownership over the past decade saw the biggest drop since the Great Depression. Homeownership rate fell to 65.1% in 2010, from 66.2% in 2000. That drop-off of 1.1% is the largest since 1940 when it fell 4% to 43.6%.

Tax Holiday

In what could be a boon for bank deposits, the concept of a tax holiday to allow a free or discounted tax rate on monies from US companies earned outside of the US is catching on in D.C. (looks like it will be included in a larger infrastructure bill for 2012). It might pay to start indentifying clients now that have offshore liquidity.

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