HISTORY AS A GUIDE

by Steve Brown

History is filled with strange events, both true and untrue, that have impacted us and forever changed the way we conduct our daily lives. Consider that the Nestles haven't run Nestle since 1875 and that there is no evidence pirates ever made people walk the plank. These wacky facts point out how strange history can be, how it can change over time and how rapidly it fades from memory. In more recent history, yesterday we outlined a few things bankers could do to improve risk management in the loan portfolio and profitability into the future. Today, we deliver new ideas you might want to consider implementing in 2012 to help your bank, as this year eventually begins to fade into memory. Add liquidity to the loan portfolio. If your bank may ever want to sell some loans, it is important to keep the payment history as current as possible. Things buyers want to see beyond just coupon and maturity date include: updated financial information, delinquency history, NAICS codes (6 digits), property type (office), subtype (medical practice), subtype of subtype (dentist), current and historical debt service coverage ratio, asset quality rating and prepayment penalties to name a few. To add liquidity to the portfolio, get in the habit of collecting and tracking this information in 2012 (also needed if a merger or acquisition situation develops). Improve the office environment. A survey by Staples finds the top things employees really want to see from their company can all be implemented next year. They include eliminating office politics, allowing telecommuting, upgrading computers or technology, getting better looking or more comfortable office furniture and providing more flexible work areas/hours. If you aren't totally sure about the ability to deliver bonuses or salary increases given industry pressures, it might make sense to think about doing some or all of these. Our single best way to eliminate office politics - cc everyone on the emails to eliminate back-door actions that could be considered backstabbing. Upgrade your security around technology. This is a key area of focus in regulatory examinations and customers want to feel comfortable as well. Getting a head start on this can help differentiate your bank from others and assist in capturing new customers. Consider a recent Aite survey that found small business owners would happily accept added security measures if their bank would offer them such as: challenge questions (87%), token based passwords (85%), digital certificates (69%), out of band authentication (66%), browser hardening (45%) and even biometrics (28%). Maybe it is time to take a closer look at layering in security to keep customers happy and exploit the advantage to boost customer acquisition opportunities. Help your customers as you help yourself. Get clients to come into the branch to review their credit file and see what areas can be improved. Offer to reduce their rate or give them something in return for the effort and the payoff can be a good one. Your team gets to cross sell the heck out of a willing customer and the customer gets to improve or check their credit history with a professional that extends credit for a living. To bring clients in, consider research by a consumer organization done before the crisis that estimates up to 79% of credit reports may contain some type of error and that about 25% of all consumer credit reports may contain errors that can result in the denial of access to credit. When customers and potential customers come into your branch seeking help, your team gets to sit down and talk with them, open up cross sell opportunities and lock down future business. What could be better or easier?

As for a few more historical facts as we close off, know that Napoleon conquered Italy when he was 26 and Leonardo da Vinci was dyslexic and often wrote wards-back.

BANK NEWS

M&A

Trustmark ($9.6B, MS) said it will acquire Bay Bank ($247mm, FL) for $22mm in cash and stock or about 0.85x tangible book.

New Fed Boss

The Fed named Michael Gibson director of its Division of Banking Supervision and Regulation, effective Jan. 1. Gibson replaces Pat Parkinson (who retires after 30Ys with the Fed) and was previously a deputy director in the Division of Research and Statistics.

Beige Book

The Fed's compilation of regional economic activity shows the economy continues to expand at a very slow pace. Consumer spending was the bright spot and the report noted that banking lending activity increased slightly.

Public Help

The CFPB will launch a formal request for the public's input in helping indentify which regulations should be changed, updated or eliminated, because they are not fully applicable. We are getting our ballots ready.

Not Helping

Stock loudmouth Jim Cramer ranted on CNBC that investors should "Sell the Banks!" He has turned bearish due to the EU debt crises, compressing margins and further expected asset problems.

Card Complaints

The CFPB reports it received 5k complaints over potential credit card abuses during its first 3 months of operation. The good news is that this number is out of 383mm card accounts and the Bureau found that 62% of the complaints were handled in a reasonable time. Only 400 responses were found to be "inadequate." Most complaints were about understanding terms, ID theft and charge disputes.

Shrinking

Analysis finds that since 2000 the number of banks supervised by the OCC has fallen 43% to 1,349.

Closure Cohort

Analysis finds bank startups since 2002 have accounted for about 20% of bank failures since 2007.