

7 RULES TO FOLLOW

by [Steve Brown](#)

People sometimes study done in the Netherlands that found people are 61% less likely to litter when a sign is posted and the area is clean. That makes sense, but the weird part happens when do T ake funky things for instance a the area is dirty and the same sign is posted. Then, only 30% of people will not litter. While we all like to think we are good at following rules, the simple fact is that when we see large numbers of people doing something wrong, many of us will join the crowd and break the rules as well. So, while you can still see the sign posted on the wall and probably haven't yet had enough coffee to ignore any rules this morning, here are some worthy of following at your bank.

- Rule 1: Diversify the risk in your loan portfolio wherever possible. Do so by sector, loan type, amount, borrower and other factors. That way, if any one has problems, you are not going to be impacted as heavily. This is one of the lessons we have all relearned from the credit crisis.

- Rule 2: Don't accept or give business-related gifts above \$100. Executives that can influence business should not accept or give gifts in excess of this to avoid any appearance of impropriety.

- Rule 3: Figure out a way to pay a dividend if you can do so and you cannot generate a return above your cost of capital. Studies show dividend paying stocks in a bear market decline on average about 50% as much as those that do not pay dividends. That is probably because investors have a higher degree of confidence in these banks, like the stronger balance sheets and see them as having a better business model. Obviously, this also depends on capitalization levels and loan performance, but the idea is a sound one.

- Rule 4: Tell your story to regulators when they come in. It will help get regulators up to speed and will ensure that everyone at the bank is on the same page. Be sure to break down all the CAMELS areas, prepare historical perspectives and provide information to examiners when they arrive. Who better than you can tell your own bank's story and update these teams on where you have been and where you are going? Make the effort, stick to facts and good things should follow.

- Rule 5: NIM is lower, efficiency ratios are higher and loan growth remains soft. The sooner your team devises a plan to deal with this and executes, the better off your bank will be and the more profitable it can become.

- Rule 6: Cut your deposit costs and do it now. Community banks still pay on average about 34% more for their funding than larger banks (FDIC, quarterly cost of funding earning assets). Talking about reducing funding costs is great, but actually doing so and moving forward could save millions if you get started early in the year.

- Rule 7: Lock in your small business customers to avoid having them stolen by the largest banks. Big banks are coming down market and targeting specific customers, offering them good rates on longer-term loans and refinancing those customers away from community banks. Remember that a loan is only one piece of profitability and locking a customer in with your bank for 10Ys gives you plenty of opportunity to cross sell additional products. That boosts profits and keeps important customers from moving to a competitor. No one likes to follow rules all the time, but in this environment, it can make

sense to follow these and others in order to stay ahead of the competition as you wait for the economy to recover.

BANK NEWS

M&A

Heritage Bank (\$381mm, KY) has agreed to buy Farmers National Bank (\$80mm, KY) for an undisclosed sum.

Housing

The Fed's Gov. Raskin called on mortgage servicers to clean up their practices to help the industry better handle the massive backlog of foreclosed homes. Raskin said the Fed would be stepping up its enforcements and could dole out monetary fines. Raskin added that forced principle writedowns should one option available to regulators.

FDIC Support

The U.S. District Court supported the FDIC's right to take funds in bankruptcy to satisfy depositors, as it did for the Colonial Bank failure in mid-2009. The Court originally ruled that there was no right of setoff against deposits, because after the Colonial accounts were transferred to BB&T, they were no longer a debt of the FDIC.

Higher Charges

Analysis from CreditCards.com finds credit card rates have soared 300bp since 2009 and are now sitting at a 4Y high. The average rate nationally (based on new card offers by 100 of the most popular issuers) is 15.14%, up from 14.75% 6 months ago.

Social Sharing

Citibank has announced a new app that will let customers use Facebook to pool rewards points online. Customers can team up to use their points for a charity, group gift or personal goal. Citi is the first bank to offer this feature.

Dealer Survey

A new survey of Primary Dealers by the WSJ finds 45% expect the FOMC to raise rates in the 2Q of 2014, while 60% think the Fed will provide more economic stimulus with QE3 in the next 2Ys.

2011 Biggest Bankruptcies

The largest bankruptcies were: 1) MF Global (derivatives broker) \$40.1B; 2) AMR Corp (American Airlines) \$25B; 3) Dynegy Holdings (power producer) \$10B; 4) PMI Group (private mortgage insurer) \$4.2B and 5) NewPage (papermaker) \$3.5B. Interestingly, a bank made the list at #6 with Integra Bank Corp (Indiana BHC with 52 offices and 500 employees) \$2.4B.

2011 Strong Returns

Investors that bought Treasuries did very well in 2011, picking up a 17% return on the 10Y and a 35% return on the 30Y, according to Barclays.

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