MONEYBALL BANKING

by Steve Brown

We recently saw the movie "Moneyball" and found it not only a great story, but also an interesting parallel to the state of banking today. Moneyball is set before the 2002 baseball draft, with a series of meetings between Oakland A's general manager Billy Beane and his scouts. The scouts evaluated prospects by feel - did the guy look, walk and talk like a major league baseball player? Beane changed the world of baseball by shifting to a largely objective system for evaluating baseball players, based on quantitative information, such as how often a player got on base. Beane ended up winning the talent selection battle and the A's went on to set a league record for consecutive wins. Of course other teams quickly copied the A's and their competitive advantage eroded. In many ways, banking is still where those early baseball scouts were. For many bankers, the primary way of evaluating customers is with their own eyes and emotions. Products and profitability are really a secondary consideration and just thought of as a static offering. The reality, of course, is that banking is changing. Just like baseball in the years since Bill James coined "Sabermetrics," bankers have the tools and knowledge that can make the industry better. Banks can identify the outcomes they want to see and structure the institution, products and customers to achieve those outcomes. It's never been easier to manage risk-adjusted profitability using models such as our BIGProfit. Further, structuring loan offerings that come with a variety of different interest rate options, but also strong covenants and deposit requirements will help create a profitable loan despite compressing margins. Instead of requiring just a deposit relationship, bankers need to provide a packaged cash management solution to capture additional deposit share and fee income. In addition, once a customer is on the books, banks must continue to market to them in order to take marketshare away from other banking relationships. Only through this manner can a 3.75% 10-year fixed rate loan be turned into a 16% ROE customer. Banks still tend to price all customers the same, regardless of profitability and risk. Why? If your bank is already concentrated in CRE, price C&I lower to incent more business, while raising the price on investor CRE to compensate for lower profitability. Price different geographies differently to aid in diversification and reflect area risk. Price loans to veterinarians lower than those to law firms; since they are materially more profitable. For Billy Beane, using data was about leveling the playing field between their meager salary budget and large-market teams such as the Yankees. Using a quantitative approach to banking isn't going to make you the best performing community bank around, but it will give you a competitive advantage similar to how the A's, Giants, Red Sox's and others embraced the concept. In banking, it doesn't take much more than a profitability model, some well designed loan and cash management products, some marketing/branding and great customer service to build something special and level the playing field with the mega banks. What data does for banking is to reduce the role that luck has traditionally played. Your bank is more likely to find success if you target and manage your customers using real data targeted at a clear set of objectives that matter. You can choose to keep working like those baseball scouts did and work on gut instinct alone, but that is fraught with issues. This could work for awhile, but it will not build a sustainable franchise that succeeds in all types of market environments. The industry is moving forward and we don't want to see any community banks left behind. If you are interested, we will be holding a special session on this very topic at our special pre-EMC Conference session at PacBell Park here in San Francisco on May 20th. We will cover up to 2 hours of lending profitability and then watch the A's take on the Giants to see Sabermetrics for both teams in action. To sign up, follow the Executive Management Conference in the Related Links section on the bottom right of this page.

Related Links:
Executive Management Conference

BANK NEWS

Closed (9 YTD)

Regulators closed: Charter National Bank and Trust ($94mm, IL) and sold it to Wintrust subsidiary, Barrington Bank & Trust ($1.2B, IL). Barrington gets 2 branches, all deposits and entered into a loss share on $72mm of assets. SCB Bank ($183mm, IN) and sold it to First Merchants Bank ($4.1B, IN). First Merchants captures 4 branches, all deposits (excluding brokered) and essentially all of the assets (no loss share).

M&A

Horizon Bancorp ($1.6B, IN) will acquire Heartland Bancshares ($24mm, IN) in an all-stock deal worth $14mm.

M&A

Hana Financial Group, South Korea will take a 51% ownership interest in Saehan Bancorp ($563mm, CA) for an undisclosed sum.

Branch Sale

In an effort to boost capital ratios, the parent company of First Federal Savings Bank of Elizabethtown ($1.2B, KY) will sell 4 branches in Indiana to First Savings Bank ($537mm, IN) for a 3.65% premium on certain assumed deposits that total about $99.7mm and certain loans totaling about $35.4 million.

Tech Error

A technology bug led to the processing of redundant payments at Citibank, impacting customers who use iPads to pay bills. Citibank indicated less than 2% of transactions executed through the iPad were counted twice and account overdrafts were rare. The bug has been fixed.