BE BACK IN A JIF

by Steve Brown

Back in the 1800's, thieves & other ne'er- do-wells used to have their own slang to confuse the police and anyone else trying to listen in on their plans. The term "jiffy" reportedly emerged from that. Back then, "jiffy" referred to something that would happen quickly, like a bolt of lightning. As time progressed, scientists adopted the term to refer to a short period of measurable time, such as the amount of time it takes light to travel one centimeter, or the time between alternating currents. These days, "jiffy" is probably best known as it relates to everyday things we see and use, such as Jiffy Lube oil changes, Jiffy Pop popcorn, corn muffin mix, pots and yarn. No matter how you use the term, here are some jiffy thoughts around diversification in banking to get you thinking this morning. In the investment world, diversification has been proven over time to be a decent strategy to protect against risk in a given portfolio. Whether that portfolio is made up of loans, securities, deposits or something else; diversification can make good sense. Diversification is a strategy that has been summed up over the years as not putting all of your eggs in one basket. By diversifying your asset classes, types and subtypes for example, if market movement or another issue surface that negatively impacts one, the others more than make up for the losses. Over time, diversifying allows your bank to reduce the risk of losing a large amount of money and protects the portfolio's overall returns and smoothes performance. A diversified portfolio of anything needs to be diversified between asset categories and within asset categories. To diversify, your bank needs to have a good balance of cash, securities, loans, etc. and within loans, for example, exposures need to be spread out across various segments or sectors that may perform differently under different market conditions. One way banks diversify loan risk is to spend time identifying and lending to a wide range of companies and industry sectors. To reach decent levels of diversification, you not only need to diversify by subsector, but also need to lend to at least a dozen carefully selected individual companies to reach diversification. Originating a single loan in multifamily, for instance, does not add much diversification at all, but adding 12 loans to the book does. Achieving and maintaining diversification can be challenging, particularly when you have geographical and other limitations as most community banks do, but it is a good objective. Even when diversification seems to fail, as it did during the worst of the crisis when many asset classes moved downward at the same time, it still helps over longer periods of time. As with anything, it is not perfect and human selection is inherently biased, but it can help. One key is to be careful when you seek to diversify when you lend to unrelated industries or companies where you may not have the resident corporate skills to manage the risk. Be sure you have reviewed lending policies, ALLL methodologies, employee experience and have robust monitoring processes when you get into new lending sectors to avoid issues. The key to diversifying properly is to stay active. As time horizons change, goals shift and the portfolio mix drifts away from original targets, you should rebalance. Only by aggressively managing each portfolio and rebalancing as needed, can you remain truly diversified. Doing that over time can help improve performance, as each portfolio's performance is monitored and management keeps a close eye on the potential for growth, risk profile and return on capital expected. We will be back in a jiffy sometime soon with more tips and ideas in this area for sure, but in the meantime, taking a look at areas where you have concentrations and working on strategies to diversify those can be a good place to start a decent program.

BANK NEWS

Multifamily

Recent data shows multifamily originations by FNMA and FHLMC are at record highs. Sales of properties totaled $3.8B in January, a 53% increase from a year earlier. The average loan rate has been 4.1% for 10Y fixed since the start of the year.

PNC Channel Management

In order to lower costs, PNC is increasing its ATM capabilities to handle imaging, expanding its ATM network and increasing ATM marketing in order to reduce branch staffing. Right now, only 10% of customers use ATMs to deposit checks and only 1% uses the ATM to cash checks. PNC's goal is to increase these numbers to 40% and 20%, respectively. If the goal is met, PNC estimates that it can save $50mm in branch costs.

Citi Tech Moves

Citibank becomes one of the first banks to release an app on the Kindle Fire platform that allows users to chart spending, plat future payments and analyze demographic spending habits. In addition, the Bank released its mobile check capture application for the iPhone and Android, as well as a separate person-to-person payment app.

Mobile Pay

A new Harris poll finds 5% of Americans are now using their smartphones in place of cash, debit or credit cards.

TARP

A Treasury report shows 8.1% remains outstanding.

ADA ATMs

With the March 15th ADA-compliant deadline approaching, it is estimated that only 48% of the Nation's 409k ATMs are compliant.

Tax Audits

The IRS reports the percentage of returns audited by income level in 2011 was 12.5% for those making more than $1mm, 4% for those making $200,000 to $1mm and 1% for those making less than $200,000.