EXPERIMENTING TO FIND OPPORTUNITY

by Steve Brown

Research by Tulane University found that when people were explicitly asked if they would like to have a smaller size of side dishes, 33% said yes and did not compensate by asking for a larger portion of another dish. The data found this method was more effective at reducing the amount of food people eat than labeling each food item with the number of calories. As with eating out, while you try to lose or maintain your weight, trying things a different way can also help bankers gain an advantage. There is a lot going on in banking, right now, so experimenting isn't a problem for bankers. The heavy load of new regulation, extreme competition and difficulty in improving profitability all weigh on the industry. As such, banks are experimenting with new loan sectors in order to gain new customers, as they also ramp up service to existing clients. The industry remains in flux, but the data shows a slow recovery has occurred over the past 2Ys and community banks are crucial. We analyzed some key changes in the industry that have occurred from the 1Q of 2011 to 1Q of 2012. We found that over this time period, funding costs declined 25% for the industry. That is good, but that is also an average so some banks performed better and some worse. To improve your profitability, review your own Call Report to see how much your cost of funds changed over this same period of time. Then, figure out the percentage and if you are either above or below, ask why and challenge all assumptions. Just doing this simple step can get people thinking about ways to improve even further in this area. Another thing that pops up when you take a closer look at the industry is that community banks are hurting themselves even more than large banks when it comes to funding. For example, banks with assets below $1B fund themselves at a cost roughly 35% higher than banks with assets above that level. To help level the playing field and give your loan team the opportunity to meet competition head on and boost business, a diligent and consistent focus on reducing funding costs is imperative. Consider the loans you could put on the books, if you could reduce your overall funding cost by the approximate difference of 32bp between these two different asset groupings. Think of the money it would save your bank on an annual basis if you could do even half of that. Take the time to run the analysis and then share it with customer facing sales teams that can make an impact right away. Driving funding costs down takes relentless focus, staff education and training over a long period of time to achieve maximum results. It is also important to recognize that a period of low interest rates and sluggish lending activity is destined to put downward pressure on net interest margins. Higher coupon loans continue to pay off, businesses are hoarding cash and are wary of expansion so new loan activity remains spotty and funding costs don't have much downward room to go until they reach rock bottom. Banks are struggling to put heavy deposit inflows to work, but weak loan activity and the issues mentioned above have driven up securities balances by about 20% over the same period. Options are limited and extending maturity to gain yield could lead to unintended consequences down the road, so bankers must be careful here as well. To gain an advantage, continue to experiment with loan programs as you seek out new loan customers and push your sales teams to visit business owners in their offices to drum up the limited business that is out there right now. These are tough times in banking, so it is important to hold onto your passion to experiment with your products, services and approach to the business. Perhaps just trying out a different approach with customer facing staff will help your bank tap into the suggestive nature of humans, as it ramps up your loan and deposit opportunities.

Related Links:
PCBB 2012 Executive Management Conference
FDIC Banker Teleconference Series

BANK NEWS

Default Again

The FHA reports more than 50% of the loans it insures (where repayment terms were modified due to foreclosure) were in default again 1Y later. The FHA allows down payments as low as 3.5% and credit scores of only 580.

New ATMs

Fifth Third Bank unveiled its next generation ATM in downtown Cincinnati that it developed in conjunction with NCR. The "mixed media" machine accepts up to 50 checks and bills in an envelope-free deposit. The technology follows similar ATM capabilities introduced by Wells Fargo last year.

Consumer Protection

Protection: The FDIC will host a call on how to manage vendors for risk and compliance on June 5th. The FDIC will discuss and update their 2008 guidance with post Dodd- Frank 2012 guidance on payment processor relationships. For more information, view link in Related Links section below.

Guilty

Executives and two different debt collection agencies pleaded guilty to wire/financial fraud and money laundering charges in connection with their relationship with Webster Bank ($19B, CT). The executives may face 35Ys in prison and a $20mm fine for wire/financial fraud and money laundering for a scheme that had the collectors falsifying financial performance to obtain a credit line, misleading investors and collecting debts for the Bank and then sitting on the cash for their own use.

Text Confirms

SoundBite Communications petitioned the FCC asking it to declare it is not a Telephone Consumer Protection Act violation for a bank to send a text message confirming an opt-out request. While it's clear you can't advertise after a request to opt-out, sending a confirmation is in question and the subject of several current lawsuits.