CONSORTING WITH THE COMPETITION

by Steve Brown

The general definition of consorting is to keep company, associate, fraternize or otherwise unite with another in a partnership or as companion. In the military, consorting with the enemy during times of war is one of the worst things someone can do and the punishment in many countries can be extreme. We bring this up because community bankers inherently look for the best in others, which is nearly always a very good trait. Unfortunately, in this case it potentially also increases risk and can expose the bank to a loss of customers, reduced profitability and the unintended consequence of strengthening the primary competitor in the marketplace (by feeding them with revenues used to support activities that pull business away from your bank). To get a handle on competitive risk, many community banks conduct a SWOT analysis about once per year. This high-level analysis breaks down strengths, weaknesses, opportunities and threats and can be a good starting point but it does not go far enough. How many bankers have conducted this analysis in CA or NC for instance, only to identify Wells Fargo or Bank of America as significant and strong competitors? Yet, those same banks take no action to reduce or eliminate doing business with these juggernauts, despite the fact they target the very same customers in the very same markets. Many community banks simply have not taken the time to carefully analyze what business is being done with such potential competitors that moments-ago, may have just taken or refinanced away a high quality customer. The good news is that this can be easily remedied by taking immediate steps to protect your franchise value, discontinue supporting key competitors and boost your profitability. To take SWOT analysis to the next level, begin by setting up an internal team to review any and all business your bank is currently doing with an identified competitor. This team needs to be unemotional about each relationship or salesperson that calls and focus on whether or not the company is a competitor first. Once the list of key competitors is created, the team should then determine whether there is another source for the product or service in question that might not be in the business of pursuing your customers or competing in your marketplace. Here, it is important to think about how each potential business partner competes with you; whether they are competing in your market for your customers (particularly for loan or deposit business) and how their corporate strategies and tactics could negatively impact your business model. This sort of process can be difficult to be sure, because over the years it is natural for staff to become attached to certain relationships despite the fact the service provider is a major competitor. Groups within the bank may even feel doing business with some competitors is important to their business, so some competitors have become sacrosanct or political. To succeed, the competition review team must carry a singular torch that burns brightly for your own bank's interests. They cannot worry about even potentially long-standing relationships with major competitors and everything should be reviewed. To be sure, times have changed, competition is extreme, large banks are coming down-market to steal community bank customers and the gloves should be off - so don't delay and zero in on any competitors that may be doing business with you to develop an exit strategy and limit ongoing damage. It is a good thing to periodically rebalance competitive risk exposures to ensure nothing sneaks up on you over time. Take action by pulling together your team, give them a mandate to identify all areas where you are currently doing business with a competitor, have them identify other non-competing vendors that can support your business and then take steps to protect your franchise by proactively exiting those relationships. The strongest competitors are very good at what they do and they should not be underestimated. They can be very friendly and professional, but make no mistake - they have one purpose and that is to make sure their own company wins. Let us know if we can help in any way, as you go down the path to reduce reliance on competitors wherever it may exist in your franchise.

BANK NEWS

Divestiture

ViewPoint Bank ($3.0B, TX) said it will sell its home lending unit to Highlands Residential Mortgage for an undisclosed sum.

Basel III

The FDIC meets today to consider adopting the Basel III standards that the Fed adopted as a proposal last week.

CFPB

The Bureau committed to finalizing the controversial SFR mortgage "ability-to-repay rule" and its qualified mortgage designation by year-end. In addition, the Agency is focused on auto lending and reviewing whether banks are practicing discriminatory pricing or lending practices.

Deleveraging

The latest data finds public and private debt as a share of GDP has declined for 112 straight quarters and is down from a peak of 98% to 84% in the most recent quarter.

Wealth

A Fed survey finds median household net worth fell almost 39% from 2007 to 2010 ($126k to $77k) driven mostly by an average 42% drop in home values.

Mortgage Lawsuit

The holding company for First Tennessee Bank (First Horizon National Corp.) is reportedly being accused of accepting kickbacks from mortgage insurers in a proposed class-action lawsuit filed in PA. The suit alleges home loan customers were referred to four insurance companies that paid reinsurance subsidiary referral kickbacks.

Branch Activity

American Banker reports the average retail branch processes about 11,000 transactions per month.