

THE TRUTH ABOUT SMALL BUSINESS OWNERS

by [Steve Brown](#)

Things are so crazy right now that a new survey by T. Rowe Price finds 75% of parents have lied to their children about money. In fact, 43% said they lied about how worried they were about money; 32% lied about whether they could really afford something and 27% lied about the family's true financial situation. It is strange, but people lie all the time for lots of reasons, so we shouldn't be shocked. Whether one is telling a small "white lie" in order to protect someone's feelings or the pathological form where a person who tells lies frequently, with no rational motive for doing it, people lie. Our best advice for anyone that is about to lie - whether to protect someone else, protect yourself, for financial gain, in social settings or just to look better - is to first check to see whether your pants are on fire. Additionally, for those that lean more toward the pathological side and tend to lie a lot, do us all a favor and set a fire extinguisher by your desk so we know who you are. To gain a little more insight into the truths that lie in the human mind, we examine a recent report by Bank of America that surveyed small business owners. BofA found that when it comes to how small business owners select their bank, a convenient location still comes first (20%), followed closely by relationship (18%) and access to local expertise (17%). All of these are key components of the community bank model, so it is nice to see and interesting to note as well. Next, the survey found small business owners want help from their bank on a variety of issues. Among them, owners said they wanted to receive financial advice on the benefits of an SBA loan (36%); how to manage payroll (36%); how to set up a retirement plan for themselves and their employees (33%); how to collect payments faster and slow down disbursements (31%); how to defend against fraud (31%); the benefits of leasing versus owning their commercial space (26%); and how to buy or sell in foreign countries (15%). These are all areas where community bankers can lend a hand, so now that you know these identified areas of interest, think about how to leverage them in your own community with special programs, training and new services to get the most traction. Another area of the report that intrigued us was how the owner marketed their business. Here, the most important action small business owners said they planned to take to increase revenue was to increase marketing in order to acquire new customers (47%). That blew away those who were focused on increasing sales to existing customers (14%); better cash flow management (12%) and acquiring additional capital (8%), which all followed in order. Perhaps this is yet another area where your community bank can step in to assist your customers with education, support and targeted savings programs. Finally, the analysis surfaced areas that small business owners found to be the most effective when marketing their business. Topping the list was word of mouth and customer referrals (84%), which was followed by networking with other small business owners (55%), direct mail or email (46%), advertising using print, broadcast or radio (43%) and social media (42%). Community banks also find effectiveness in these areas, so they make sense from that perspective as well as your customer's. To get traction here with customers, you might consider helping customers create a referral program, a business owner mixer, a targeted savings account for advertising, working something out with a local radio station to give discounts to your customers and providing education and expertise around social media. Just trying these things will indicate you are on top of the areas of interest to small business owners and hopefully help you capture new business customers. As a final passing thought when you prepare to make that next loan, consider a study by Experian. It found the percentage of people that will exaggerate or hide aspects of their financial circumstances when applying for credit remains low overall, but now sits at a 3Y high.

BANK NEWS

M&A

Grandpoint Capital (\$1.6B, CA) will acquire NCAL Bancorp (\$341mm, CA) for consideration paid in part at closing and in part two years after the closing. Total consideration will depend upon NCAL's balance of tangible common equity prior to closing, pre-closing loan recoveries on charged-off loans, the level of transaction expenses and a reserve to be established for future credit losses.

Bank Pricing

Through the end of May, the median price-to- tangible book value for community banks is 1.2x, up from 1.1x for the same period last year. That said, the price-to-earnings fell to 20.2x from 22.9x for the same periods, respectively. The difference in trends may mean investors believe bank earnings will be greater in the future.

Basel III

The FDIC and the OCC followed the Fed in issuing 3 joint proposed rules impacting bank capital and the capital requirements for selected debt and securitizations. If approved, the new rules will start to be phased in Jan 2013.

Fined

ING agreed to pay the biggest OFAC fine in history at \$619mm to settle civil charges that it violated U.S. sanctions against Iran, Cuba, Libya, Sudan and Burma (by allowing clients to transfer money to those countries). ING admitted stripping off details of payments in order to limit identification of the prohibited transactions.

Testimony

JPMorgan CEO Jamie Dimon will testify before Congress today on the cause of the bank's \$2B trading loss.

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