10 THINGS YOU CAN DO (OR NOT) FOR BETTER PRICING

by Steve Brown

As Mom always said - "Don't be a victim." While harsh, the often-used comment was empowering. Events don't happen in isolation and when things don't go your way, you can bellyache about it or you can be part of the solution. Victims seek to blame, point fingers and make excuses. People or organizations that control their destiny, seek to change their environment. However, some banks may be acting like victims when it comes to loan pricing. Low interest rates and low loan demand will continue to drive pricing tighter in all loan categories. Instead of just reacting, banks can deal with this environment in 3 primary ways. One, you can architect your bank to compete on price. This can be done by focusing on dropping deposit pricing, controlling growth, becoming more efficient, boosting fee income and/or increasing leverage. If you choose to compete on price, know that while some community banks can pull this off, small size often works against them compared to the larger banks. Path two is to build your bank around superior customer service and a premium brand, which your bank can leverage for better pricing and greater cross-sell. Here, a community bank's small relative size plays to your advantage. Competing on service allows your bank to command higher margins and increase your share of the customer's business. This, of course, can be easier said than done. However, there are some key elements of service that top performing banks seem to share. The 1st and most important is to decrease loan turnaround/processing times. The 2nd is to have a conflict resolution system to solve problems within 24 hours (if possible). The 3rd is to have a process that can be documented and improved upon. Here, whether it is deposit account opening, handling referrals or originating a loan; top performing banks have a set process in which to evaluate and improve on workflow. The 4th most important factor that we have found is follow-up. In studying bank service, all customers should get a call within 4 days of account opening, loan booking or when they take a new service. Then, every customer should be contacted at least 2x per year in order to make product suggestions and to check on their level of satisfaction. The 5th is flexibility and training to meet the customer's needs. Can your bank offer a 15Y fixed rate loan? Can the bank advise clients on when to accept floors in loans or pay upfront fees, in exchange for a lower rate? Can your bank work with a businesses' cash flow and asset-liability position to design the best loan structure? Banks that can take an advisory role in the process tend to command better pricing than those that just choose to compete on rate. The 6th as it pertains to loan pricing is to provide what is called "anticipatory service." This is the art of solving problems and generating satisfaction before the customer verbalizes it. It is what makes Ritz Carlton so successful and allows them to command a superior price for a hotel room - a clear commodity. To deliver anticipatory service it takes understanding the customer and their industry in order to make suggestions on products they might want or strategies/tactics to pursue. It means getting them tax help before they ask for it or bringing in experts to help them better understand their industry or the economy. Finally, rounding out 7th thru 10th spots are a list of infrastructure changes, such as increasing marketing spend, building a cohesive brand image, turbo-charging training or creating a sales culture that positions your bank more as a consultant than a commodity. All of these items can help create more support for premium pricing. Community banks hold themselves out to be flat organizations and pride themselves on flexibility. If this is true and your bank creates value, then perhaps you should be charging more for it. Banks should have a solid plan to create an organization that can compete on price or that is structured to extract value through defined customer service. Lest you think we forgot, of course, the final alternative is to do nothing. In that case, the choice is to let the winds of change buffet your margins. However, know that Mom would say that this is a sure path to end up a victim.

BANK NEWS

M&A

Mission Bancorp ($269mm, CA) will acquire Mojave Desert Bank ($104mm, CA) for about $7.2mm or 0.82x book.

M&A

American Bancorp ($791mm, OK) will acquire Osage Federal Bank ($154mm, OK) for about $28.1mm or 1.22x book.

Branch Closures

In an effort to improve efficiency and boost profitability, SNL Financial reports banks have closed about 770 more branches than they opened during the past 12 months.

FDIC Calendar

The FDIC is developing a regulatory calendar to help community banks stay current on changes in federal banking laws; regulations; supervisory guidance; notices of rulemaking; joint proposals; and independent issuances from other agencies that are relevant to the FDIC's supervisory examination programs.

Debit Card Regulation

The Fed issued a final rule allowing debit card issuers to receive a fraud prevention adjustment of no more than 1 cent per transaction if they develop and implement policies and procedures to reduce the occurrence and costs of fraudulent debit card transactions.

More Easing

A new CNBC survey of major economists finds 78% believe the Fed will do additional quantitative easing as global economic conditions slow to a crawl. This compares to only 58% in June who expected the Fed would act.