

RELAXING IN THE YARD & A THRIVING GARDEN

by [Steve Brown](#)

For many people, having a vegetable garden in the back yard can be a source of enjoyment as well as providing fresh, organic things to eat. Anyone who gardens knows that early Sept. is the time of plenty. It is now that almost every plant is exuberantly producing mass quantities of vegetables. A community banker we were talking to said they had been traveling last week and returned to find zucchini squash the size of Louisville Sluggers and tomatoes the size of softballs in their garden. We thought about this and mused it could be the source of an entertaining, if somewhat squishy baseball game, but childhood teachings about starving children in far-away places snapped us back to reality. We pondered what that banker did with that extra zucchini and wondered whether they had tried to give it away, only to find everyone else in the neighborhood also had too many zucchinis. Sometimes zucchini can simply be too much of a good thing. Bankers may be thinking the same thing about deposits these days. It was not so long ago when loan demand was brisk and banks needed deposits. Programs were offered, such as free checking that accomplished the short-term goal of bringing deposits into the bank. Unfortunately, this also served the unintended purpose of teaching customers that they shouldn't have to pay fees for bank services. Now, many banks have too many deposits and not enough loan demand - compounded by a neighborhood full of fee avoiding customers. If you are wondering what you can do with all that liquidity, there could still be options on the asset side. Our high level advice is to keep the liquidity invested in safe and sane securities as you work to run down your excess cash. Then, tend to the loan garden and it too will grow over time. Buying securities is admittedly more difficult given lower returns. However, taking excessive risk right now isn't the right answer, so take what the market will give you and don't try to force things. Just as spraying lots of bug spray around the garden can be immediately effective, it can also be quite bad over the longer term, so be careful. One simple thing to do is to call around to a few brokers to see what is being offered. Tell them you don't want anything crazy and are seeking a duration of "X" with limited optionality. You won't see huge yields or spreads, but you will know what the market can deliver. Then, ask yourself whether the extra 10 to 20bp you pick up immediately is worth the huge, leveraged risk you might be taking to capture it given the environment. Give our fixed income team a call and we'll walk you through options to complement your strategy and protect against taking too much risk. Loan activity is also subdued for many community banks. It is just plain difficult to find quality borrowers that aren't already a customer of another bank. Given that interest rates are low (due to the Fed's actions to force that to happen) and customers are embedded elsewhere, banks are fighting with one another over loans and pricing is tight. After adding in the level of risk associated with a loan priced at basement levels, many bankers are wondering if they are even getting paid enough to take on the risk in some cases. Lending too is tough and options are limited. In the end, earning a living from margin or spread in this interest rate environment is very difficult no matter what you do. Further, as loans and higher coupon securities on the books continue to run off, this difficulty will only increase. Banks just flat need to earn more non-interest income, but that is easier said than done. To stop weeds from appearing, try focusing energy on delivering bundled service packages. Fees can be more easily embedded, the customer captures more value, and they buy multiple services so they are less likely to leave in the future. Boosting fee income takes time but it can be successful. Consider an advertisement we saw recently from a credit union. The ad was structured as a business customer testimonial. The customer was touting a commercial loan, two

checking accounts (one business and one personal), a savings account and a safe deposit box from the credit union. The thing that got our attention, though, was that the ad said nothing about free or the waiving of fees. Instead, it focused on a consolidated or bundled solution for business customers to get help and expertise and pushed value over price. Assuming the ad was legit, a customer with that many services with any financial institution would be highly unlikely to switch over a small difference in a loan rate or account fees. It is difficult to add service fees in this environment but a well- structured bundled push can bear fruit. Keep trying as you explain the value of your services to your customers. The simple fact is that most people understand if you offer something of real value in return for a fee, it can be worth it in the end. In the meantime, while you are out and about promoting your business service package, don't forget to lock your car - lest you return to find your front seat full of zucchinis.

BANK NEWS

Deeper Cuts

Bank of America said it is accelerating a plan to restructure and will cut 16,000 jobs by the end of this year.

Cyber Warning

The Financial Services Information Sharing and Analysis Center warned banks and brokerage firms to be on alert for increased cyber attacks following unexplained outages on Bank of America and JPMorgan Chase websites.

Competition

A blogger monitoring patent filings reports Bank of America has been working on new mobile technologies that would allow smartphone users to analyze their environment with the phone camera, recognize objects around them (including those with embedded sensors) and create automatic budgeting and wish lists.

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