

## LESSONS FROM TELEVISION FOR BANK LENDING

by [Steve Brown](#)

Beloved Saturday Night Live character Rosanne Rosannadana was played by Gilda Radner in the early days of the show (1978). Rosanna was a brash and tasteless news commentator who took viewer questions on a variety of subjects, invariably digressed into a lengthy anecdote that had nothing to do with the topic at hand and then when interrupted by an exasperated Jane Curtin asking what her comments had to do with the question would simply explain everything away by saying "it's always something, if it ain't one thing, it's another!" Community bankers can relate. Most community bankers we know are working diligently to increase the size of their loan portfolios. It is also not new information that competition is fierce and closing deals has been difficult. There are a variety of reasons for this, but the overwhelming one is simply too much supply for too few good deals. As a result, bankers are now refinancing existing customers away from competitors by offering lower interest rates, longer terms and other factors. You see, it is always something. The worst case is that a bank does not get to compete for the business and deals are lost as the customer just disappears. We always advise banks to try to avoid competition on interest rate alone, but that is easier said than done right now, so you have to be flexible. The difficulty here is that larger banks have greater economies of scale, so they are willing to book loans at lower rates. This squeezes margins, which for community banks is a very difficult situation indeed. To keep the best customers, remind your customer-facing teams how important it is for everyone to cross-sell. Doing so reduces acquisition costs and makes customers less rate-sensitive as it boosts opportunities. There are other tactics to try as well. Consider a recent advertisement by a credit union that leveraged a small business owner through a testimonial. The customer said they had received "a large commercial loan, two checking accounts, two savings accounts and a safe deposit box," as the credit union emphasized full service. The advertisement did not say anything about the interest rate or free service charges. Rather, the credit union was advertising its ability to take care of all of the small business customer's needs. Having offered all that, there will still be times when competition ends up being over the interest rate on a given loan. Qualified borrowers are regularly being approached by hungry banks and they are finding it easier to leave given the savings they can achieve. If you have to cut the loan rate or risk losing the business, you might have to do so, but to protect yourself it is important to extend duration so you have plenty of time to cross sell and reduce your acquisition costs. In addition, don't forget to keep attacking the funding side of your balance sheet to give you more room to maneuver. The latest FDIC report shows at the end of the year, funding costs for banks under \$1B were still running 22bp higher (about 48%) than banks over \$1B, so there is still plenty of room to improve. Competition will remain strong as long as interest rates are low, so reviewing the game plan makes sense. It is always something to be sure, but then again, there is always something you can do about it to keep your bank in the mix of things.

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## BANK NEWS

### M&A

The holding company of Savings Institute Bank and Trust (\$941mm, CT) will buy the holding company for Newport Federal Savings Bank (\$449mm, RI) in a cash and equity deal valued at about \$61.3mm or roughly 1.35x total equity.

### **Deductible**

The IRS chief counsel has issued a legal memorandum indicating certain maintenance expenses on OREO property are deductible because the bank does not acquire the property for the purpose of reselling it at a profit.

### **Competition**

Bank of America has launched a new credit card called BankAmericard Better Balance Rewards that gives borrowers \$25 back each quarter if they pay monthly bills on time. The Bank is trying to entice customers to do more business with them and sweetens the pot by another \$5 if the customer has another account with them.

### **Branch Closures**

SunTrust said it will close 40 branches this quarter as it seeks to reduce costs.

### **Divestiture**

HSBC Holdings (Europe's biggest bank by assets) agreed to sell a portfolio of US consumer loans to Springleaf Finance Inc. (a subprime lender) for \$3.2B. The CEO of HSBC took over the job in 2011 and has since sold or closed 47 businesses, as he refocuses on markets where the bank's operations are the strongest.

### **Corporate Sequester**

Merrill Lynch projects the Congressional sequester will reduce corporate profits at the largest US companies by about 1% this year.

### **Record Dow**

The Dow Jones Industrial Average hit an all time high of 14,253.77 yesterday, surpassing the record set in Oct. 2007 and a whopping recovery from the low of 6547.05 hit in Mar. 2009. The stock market continues to be powered along by Fed stimulus, corporate profitability and economic stabilization.

### **Profitability**

Corporate profits as a percentage of national income hit 14.2% in 3Q 2012, the highest level since 1950.

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