A STRATEGY THAT WORKS

by Steve Brown

Many of us grew up watching the Looney Tunes cartoons with the Road Runner and Wile E. Coyote. The cartoon series began in 1948 and was created by animator Chuck Jones for Warner Brothers. Most of the interaction in the cartoon was between the Road Runner and the Coyote in a wild canyon landscape. Wile also appeared in 5 short films with Bugs Bunny although Bugs explained he was standing in because the Road Runner had sprained a giblet. Wile used different tactics to pursue Bugs than Road Runner and it turns out this adaptability is very much present in real coyotes as well.

Bankers have felt much like hunted coyotes for the last few years, navigating the ever-changing regulatory environment while trying to generate earnings. All of this occurring within an environment of low margins and high competition. Unfortunately, given so many regulatory changes to absorb and still so many still unknown, community bankers are feeling strained and exhausted. This has led some to talk of M&A and others to book long vacations to try and recoup. Given all this complexity, it is also time to consider outsourcing things the executive team has no time to do, not enough knowledge to continue doing given the changes, don't like doing or that simply add little incremental value to the future of the bank but are still required. Make your own list and we bet it would include 4 or 5 things right off the bat. That makes perfect sense, particularly when you consider that community bankers have a limited amount of time and less of it to focus on the nuances of so many regulatory changes over such a short period of time.

Outsourcing is happening more frequently, as community banks seek ways to free up resources, standardize processes, reduce operating costs, meet regulatory requirements, gain expertise, transform the business, force change, focus more on core business activities, move to best of breed services, utilize new technology or turn fixed costs into variable ones. All of these are supported by outsourcing.

One area of potential outsourcing lies in the area of risk management. Here, banks must show regulators they have valid documented processes in place and the expertise to evaluate and manage risks across a broad spectrum. Regulatory emphasis has been on stress testing the loan portfolio, more robust calculations and methodologies around the loan loss reserve and now interest rate risk, to name a few. Bringing in an outside expert to assist in these and other areas can make a lot of sense. Doing so also frees bank staff to do what they do best (develop customer business), while leveraging subject matter experts to help in arcane banking areas that are required, but not very fun or interesting to many bankers we know.

Sure, there are some bankers who would rather document the application of Q factors in their ALLL calculation than go to a community social event to network with potential borrowers, but most bankers would probably rather eat glass each month.

The good news is that we can help in all of these (and other) areas, so give us a call to find out how easy this is to do. Our goal with each service is to provide you a comprehensive solution that incorporates the latest regulatory emphasis AND to have someone with a whole lot of experience help you do this part of your job faster, easier and with specific expertise.

Consider trying us out to get many different processes off your plate, as you outsource non-core activities and continue to adapt to Wile's tricks to catch you in this new banking environment.

Related Links:
PCBB 2013 Executive Management Conference

BANK NEWS

Settlement

Bank of America has agreed to pay the NCUA $165mm to settle charges related to sales of mortgage backed securities to failed corporate credit unions.

NIM

Research from the Fed shows net interest margin for the industry has been on a declining trend since late 1992.

Mega Huge

Fed research finds the largest bank holding companies in the US (as of the end of 2012) were: JPMorgan Chase; Bank of America; Citigroup; Wells Fargo; Goldman Sachs; MetLife; Morgan Stanley; US Bancorp; Bank of New York Mellon and HSBC North America. The top 5 of these held about 49% of total industry assets, while the top 10 combined represented 64% of industry assets.

Jail Time

The owner of a KS real estate finance company has pled guilty to a $1.5mm wire fraud and now faces 20Ys in prison, after reportedly falsifying documents to make draws of nearly $27mm on his line of credit from Wells Fargo. The man hid delinquencies on 129 loans by manipulating construction escrow accounts on various properties.

Noninterest Income

Since about 2000 noninterest income as a percent of operating revenue has run about 55% to 60% for banks over $500B vs. 40% to 45% for all other banks according to Fed research.

CRE

Non-performing commercial real estate (CRE) loans as a percentage of total CRE loans has fallen from just under 8% in 2010 to slightly less than 4% as of the end of 2012, according to Fed research.

Taxes

A new survey by USAA finds 53% of people expect to get a smaller tax refund this year than last, as a result of changes to laws by Congress.

Busted

The chief investment officer of the Wyoming Retirement System has been fired after pleading guilty to insider trading for buying shares of a technology company.