

## REPORTER ON THE SCENE AT THE EMC - DAY 1:

by [Steve Brown](#)

Yesterday we began the annual PCBB Executive Management Conference at the Palace Hotel in San Francisco. The hotel is beautiful, a real icon of historic San Francisco - in fact so historic that we found this morning while preparing this publication, there is no coffee in the hotel at 5am. Nonetheless we press on, albeit bleary-eyed and groggy.

We look forward to this conference for many reasons, but especially because it is an opportunity to gather hundreds of bankers together to talk about what is on their minds and provide education on how to improve performance, manage risk and boost profitability. Over the next two days, since not everyone reading this publication was able to attend, we will provide some interesting tidbits as we hope many of you will be able to attend next year's conference.

Our day began with yours truly, Steve Brown, giving an overview of the industry and focusing on key changes that have and are occurring at a blistering pace. One point that raised eyebrows was work done by Cornell University that predicts 70% of small businesses will change hands over the next few years and likely passed down to a younger and technology-savvy generation. That is one key reason the largest banks are aggressively pursuing mobile banking as they seek to capitalize on this paradigm shift and pull small business customers away from community banks. Small business customers are the bread and butter of community banks, but 69% are now using tablets according to an AT&T study. The only way for community banks to protect this business is to embrace technology.

William Conerly was up next and talked about the economy and its effect on community banks. He suggested that when looking at the economy, bankers should worry primarily about what would change behavior in how bankers manage the bank. He also pointed out a recent survey found 15-20% of economists expect a recession in the next 12 months and challenged the audience to have a contingency plan to stay on track.

Doug Hensley, our PCBB risk management guru then took the podium. His presentation focused on use of the balance sheet and income statement to determine areas of risk and opportunity. He highlighted the fact that community banks typically generate more yield than big banks, given a higher allocation to loans. He then stated that yields over this cycle were dropping about 2.4x faster than in big banks, a key contributor of pain. He also pointed to a higher cost of funds at community banks and said given the competitive environment this area may be easier to reduce than to maintain loan yield, so community banks should keep relentlessly working on this until levels get closer to those of the biggest banks to improve competitiveness.

After lunch, two speakers from Javelin Strategy and Research hit the stage and provided lots of information on the mobility of banking, trends and discussed successful bank implementation strategies. They challenged banks to think of opening an account without offering checks to customers by assuming they will only use only debit cards & mobile transfers. Capitalizing on changes, reducing costs and focusing on the efficiencies of technology were all themes provided to the audience.

The final talk of the day covered the use of hedging and this talk featured PCBB favorite Ed Kofman along with Dan Wheeler, a partner at Bryan Cave. Ed and Dan spoke about how important it was for

community banks to use hedging as a technique to bring in more loan business, keep the best customers and generate margin and fee income. Business customers want to lock in low rates given such low rates, and that doesn't fit the typical funding sources available to community banks, so something has to change. By modifying loans to float now or in the future, community bankers can give clients what they want, capture more income, avoid interest rate risk and avoid the complexities of swap accounting.

The day ended with a reception, where bankers from around the country networked and talked about problems they were facing while others offered solutions they were using to solve sticky issues. Look for more in tomorrow's round-up...

## **BANK NEWS**

### **M&A**

Reuters is reporting Mitsubishi UFJ Financial Group has acquired a U.S. commercial property loan portfolio from a Deutsche Bank unit worth about \$3.7B.

### **Crackdown**

The CFPB has fined four private mortgage insurers \$15.4mm, saying they were "key players" in an allegedly illegal kickback scheme with lenders for more than 10Ys. The fines were issued against Genworth Mortgage Insurance Corp., Mortgage Guaranty Insurance Corp., Radian Guaranty Inc. and United Guaranty Corp.

### **Industry Cuts**

Bloomberg reports the 6 largest US banks plan to cut 21,000 jobs this year as they seek to boost efficiency and retool business operations. , despite rising stock prices, resurgent profits and a growing economy, Bloomberg reported.

### **No Wholesale**

Fed Chair Bernanke said in a speech yesterday that regulators will remain focused on pushing banks to reduce reliance on wholesale funding sources that "proved highly unreliable during the crisis." Watch out brokered CD market.

### **Layoffs**

HR firm Challenger, Gray & Christmas reports companies fired 5.6% more employees in the 1Q vs. the prior quarter, marking the highest level of layoffs since 2011.

### **Consumer Worries**

A study by the National Foundation for Credit Counseling finds 57% of people worry about their lack of savings, 47% say they don't have enough money for emergencies and 26% say they are worried about being able to pay their debts.

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