

INTERNATIONAL EXPERTS AND FEAR OF CHANGE

by [Steve Brown](#)

A few weeks back, we were having dinner in San Francisco at a restaurant with a view of the Bay Bridge (which is looking great with its new light display) and ended up having an interesting chat with a fellow from Australia. He happened to work for one of the big international banks as an equity manager and had stopped in San Francisco for a night on his way to Hong Kong. We discussed the differences and similarities in our respective customers and determined that while everyone is searching for a reasonable return, the pathways and expectations to get there are quite different (given different circumstances and risk tolerances). We also found out we had no interest in eating a Vegemite sandwich.

For this equity manager, risk analysis must consider a whole different set of factors than we deal with in local US banking. Especially since he must consider how currency fluctuations will impact investments. The relative strength of the Australian economy and resulting strength of their currency has a couple of outcomes that have turned into real headwinds for investments there. Because Australia is a large exporter of natural resources, the strong currency makes the prices of their commodities more expensive and more difficult to sell abroad. Additionally, there is real difficulty in earning any return on capital based on another currency. The result has been that very little outside capital flowing into the country.

This sounds a little like banks trying to generate earnings in our own country right now. In our environment of low interest rates and heavy competition for customer business, things are difficult. The equity guy looks for a circumstance, industry or maybe just one company, where he can capitalize on expertise or abilities that allow it to prosper despite the macro-economic forces.

There are ways community banks can enhance the business and prosper in spite of economic headwinds, by leveraging special expertise or abilities. Another option is to look for businesses that fit that model in your market and then make an effort to specialize in services that meets their needs. This is especially the case if those businesses represent newer technologies or business lines in your business footprint that have not yet caught the attention yet of your competitors.

For most community banks, the types of businesses we lend to are dependent upon the economy of the market in which the bank operates. For that reason, community banks tend to have more localized portfolios. When you add to that the comfort zone most of us prefer to live within and the way many people will fight change, things can take time to shift. This also applies to risk management, as that comfort translates into expertise and that can be a really important attribute when managing risk. But the other side of only doing what your bank knows best, can add risk due to that concentration. As key sources of lending decline, like construction or small business CRE, it can be quite difficult to branch out into new areas.

As you seek new areas of growth, try to think outside normal channels as you add new expertise. It may be possible to steal a person or a team from another bank, but don't forget to look within your own organization first. Our international equity manager deals with expectations of his clients in an environment of record highs for equity averages, while banks are looking for ways to generate

earnings in an ever compressing margin environment. Either way, this is difficult work, so both will need to work smart and embrace change - this is nothing to fear.

BANK NEWS

M&A Off

Customers Bancorp (\$3.2B, PA) and Acacia Federal Savings Bank (\$785mm, VA) have called off their planned merger, citing delays in receiving regulatory approval.

Good News

The FDIC said it will return \$5.7B in prepaid assessments to banks by June 30 because the Deposit Insurance Fund and banking conditions have improved.

Too Late

A judge has ruled the FDIC must drop its efforts to collect damages against Bank of America (related to mortgage backed securities Countrywide reportedly sold to failed bank Colonial), because it is past the 1Y statute of limitations.

Layoffs

Citigroup indicates its plans to fire 11,000 workers announced in Dec. will come from the following areas: 1,900 jobs from the institutional clients group, 6,200 from global consumer banking and 2,600 from operations, technology and global functions.

Phones & Tablets

If you wanted to know how fast people are going mobile and buying smartphones/tablets vs. PCs, consider statistics from International Data Corp. It found PC sales tanked 14% worldwide in Q1, marking the biggest drop in 20Ys and nearly double the expected decline of 7.7%.

FHA Help

President Obama's budget shows the FHA may need a reported \$943mm from DC to stabilize its finances. Interestingly, the FHA also announced it will extend the Home Affordable Refinance Program (HARP) through 2015 to help more underwater borrowers refinance their home loans.

Dividends

S&P reports US companies reported \$14.5B in common stock dividends in Q1, as payout ratios hit 36%.

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