

## Spy VS Spy

by [Steve Brown](#)

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The NSA is all over the news these days, with its surveillance of emails, texts and contact lists in the US and abroad. Not that most of us have a lot to hide, but the prevalence of electronic spying through email and social media does raise an eyebrow. What we want to know is who has the time to read all those texts concerning what to pick up at the store and Facebook posts on what we ate over the weekend?

The banking world is quite aware of the interconnectedness of the electronic world and works very hard to keep important information far from intrusive eyes. In the old days, it was a joke to keep all one's passwords on a rolodex card filed under "p" or on a sticky note attached to the computer keyboard. There is a lower likelihood now of a physical theft than of electronic thievery. But it may be time to hide that rolodex card again. There have been a number of small tech companies that have reported the physical theft of laptops with proprietary source-codes, and the theft was accomplished through breaking and entering into offices. Thieves have concentrated on small businesses, assumed to have spent little effort or money on physical security.

Banks, having money on the premises, spend quite a lot of effort of physical as well as electronic security. Banks work hard to protect sensitive customer information. It is at least as important to protect your bank's business secrets such as your customer base or how your bank structures and prices loans. This is important proprietary information that makes up the building blocks of your bank's success.

There's no need for corporate espionage if your bank is willingly sharing this information though. We have seen a number of advertised webinars for loan swap programs lately. We have no problem with loan swaps - in fact we recommend it for banks looking for a way to pro-actively manage interest rate risk, but our advice is to be quite careful. These programs raised our collective eyebrows because these service providers just happen to have branches and compete for the customers of your bank so sharing information of such sensitive nature is downright dangerous. We call these spies "frenemies," because they are very friendly, they offer services to community banks, but they also make loans and take deposits in the very same markets as you do. They are truly friendly enemies.

There are certain types of information that your bank should simply never share with competitors - period. If you ask us, #1 in importance is the very secret sauce that makes your bank what it is - lending. Never share the alchemy of your loan structures, pricing, customer risk assessment process or who your most valuable customers are with frenemies.

Think about the logic behind using any bank that takes deposits or makes loans to price your loans, help you with swaps, review your customer relationship profitability or handle your asset and liability management. Sure they are friendly, but at a baseline level, they also seek to destroy you and covet your customer. Maybe this has been justified to you by saying this group is not in the same department or out of the same office, but the risk you are taking isn't necessary. You can never be sure which information is being shared within a competing bank and you can avoid it altogether by doing business with PCBB. We are owned by community banks, we serve community banks and we never compete with our customers.

Eliminate your competitive threat by kicking these spies out of your country (bank) and lock down the borders to make sure they stay out and away from your hard-earned customers. Call us, we can help.

# BANK NEWS

## **M&A Off**

First Scottsdale Bank (\$119mm, AZ) and Commerce Bank of Arizona (\$222mm, AZ) have called off their plans to merge, after becoming unable to reach an agreement on the extension of the closing date and certain covenant amendments to the original deal.

## **M&A**

Highlands State Bank (\$201mm, NJ) will buy mortgage banking company Secured Lending Solutions for an undisclosed sum.

## **Layoffs**

Bank of America said it will cut up to 4,000 mortgage jobs due to slow refinancing activity.

## **Branches**

Celent reports branch foot traffic is falling at a rate of about 5% per year and will be down 60% in the next 5Ys.

## **SFR Lending**

American Banker reports regulations have driven the cost of originating a single family residential mortgage to \$5,900 per loan vs. \$3,700 in 2007 (+60%).

## **Whopper**

When news hit that JPMorgan had tentatively agreed to pay \$13B to settle civil allegations into MBS it sold prior to the crisis it got us thinking. That amount is about 61% of 2012 profits so it is large indeed, but we wondered how many other companies could pay the same sort of fine. According to the Fortune Global 500, companies that made more profit than JPMorgan last year included ExxonMobil (\$45B), Apple (\$42B), Gazprom (\$38B), Industrial & Commercial Bank of China (\$38B), China Construction Bank (\$31B), Volkswagen (\$28B), Royal Dutch Shell (\$27B), Chevron (\$26B), Chevron (\$26B), Agricultural Bank of China (\$23B) and Bank of China (\$22B).

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