
Learning from Past and Present for Future

by [Steve Brown](#)

For all you history buffs out there, last Friday, Nov. 22, marked the 50th anniversary of President Kennedy's assassination. It's also the month in which the U.S. Supreme Court, back in 1956, ruled segregated busing unconstitutional.

There's a lot we can learn from history so that mistakes we've made in the past don't get repeated. There's also a lot we can learn from current events, as they relate to protecting ourselves from significant business interruption. Case in point is the ongoing debacle with the troubled HealthCare.gov website.

Finger-pointing is happening every day about the root of the site's problems. In recent congressional hearings, contractors for the federal health insurance website repeatedly assigned blame to each other and to the Obama administration. According to published reports, the breakdown seems to have occurred due to a lack of testing. Allegedly, the various parts of the system, which were contracted out, weren't tested together to make sure everything worked as a cohesive unit.

That may sound insane, given healthcare consumes about 20% of GDP, but for bankers it serves as a stark lesson. You must be the gatekeeper of your outsourced relationships. Who you do business with, whether they are competitors hiding behind the curtain, what they do with your data, how they handle your account and a myriad of other issues highlights the need to think about each relationship and to thoroughly test any new systems.

Don't get us wrong, as there is absolutely nothing wrong with outsourcing and it can help a community bank roll out new services, gain expertise and solve problems quickly and efficiently. The key in the process is to avoid outsourcing to unqualified counterparties or competitors ("frenemies"). For the first, you may not get the results you want and for the second you may lose customers, profitability and let the wolf into the hen house so be extra careful.

For a host of reasons, some banks make the mistake of trying to be as hands-off as possible with third-party providers. In reality, it makes strong business sense for banks to be on top of their outsourcing relationships. Not only that--it's required by regulators, who have recently warned banks to carefully monitor vendors and third parties amid increased activity in outsourcing.

Any partner that objects to close scrutiny by the bank should be sent on its way. Banks also need to evaluate a vendor's risk management practices and whether they take deposits from customers that could be yours or offer loans that could steal your customers in the future. If you don't like what you see, it's a good idea to sever the relationship before problems occur.

By the same token, banks should ensure that all contracts with third-party vendors are written and clearly spell out rights and responsibilities. It is a good idea to periodically evaluate the partner's performance and assess them annually.

As with outsourcing arrangements, community banks also need to make sure internal technology efforts are beyond reproach. Nowadays, everything moves faster than it used to. Mistakes that once may have been small now have the potential to cause significant monetary and reputational damage.

As proof, look no further than the Nasdaq Stock Market, which has suffered a series of technical problems over the past several months. These types of problems bring unwanted concern from customers, potential customers and regulators.

What does this all mean? Well, we all know there is a well-known adage that history tends to repeat itself. However, when it comes to technological matters and outsourcing, there's a lot to be said for getting it right the first time.

BANK NEWS

M&A

Heartland Financial (\$5.1B, IA) has acquired Freedom Bank (\$73mm, IL) for an undisclosed sum.

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Franklin Synergy Bank (\$618mm, TN) will buy MidSouth Bank (\$258mm, TN) for an undisclosed sum. After the all stock transaction, Franklin will own 64% of the combined bank, while MidSouth will own 36%).

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Independent Bank (\$1.9B, TX) will acquire Bank of Houston (\$935mm, TX) for about \$170mm in cash (20%) and stock (80%).

M&A Approved

Green Dot Bank (\$396mm, UT) has received Fed approval to purchase GE Capital Retail Bank's (\$33.4B, UT) Wal-Mart prepaid card business.

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Connexus Credit Union (\$498mm, WI) will acquire Cintel Federal Credit Union (\$67mm, OH) for undisclosed terms.

Warning

The Consumer Financial Protection Bureau (CFPB) is warning the student loan market is on the edge of a crisis and that it is "irresponsible for financial regulators" to avoid taking action to prevent a financial crisis. The CFPB said lenders should be required to provide more data have policies that encourage refinancing the 40mm people that have about \$1.2T in outstanding student loans.

Competition

US Bank and American Express have announced a card issuing agreement where US Bank will offer credit cards accepted by Amex in 2014. The Amex cards will be available online and at US Bank branches.

Housing

FHLMC projects home values will climb 5% to 6% in 2014. This is a slower pace than recent years but still above this year's levels.

Sale Planned

The Treasury said it will sell its remaining 2.2% stake in General Motors by the end of this year. At one point the Treasury owned 61% of the company.

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