

Top Secret - Do Not Share Inside Information

by [Steve Brown](#)

There was an era not so long ago when banks gave away toasters or even a jumper cable set with an official bank logo (think of Bank X when you are stranded by the side of the road with a dead battery!). These gifts were incentives for customers to open an account at the bank. The cost of the "gift" was more than offset by the value of the deposits received, which the bank could then lend out and generate earnings. So by putting a small amount of money in the customer's pocket, the bank benefitted over all.

Most bankers would not consider walking across the street into a competitor's lobby, leave \$1,000 on the president's desk and say - use this to undercut me on the next loan deal. I just wanted to give you a little present to give you an incentive to kick me in the seat of my pants. We imagine you think we have lost our minds with the absurdity of this scenario, but in reality, many community banks are doing just this. Banks outsource many operations and there is no criticism from us on that. We are a big fan of using the limited resources of your bank to grow your business with your local knowledge and expertise, rather than to perform operations that can be more efficiently accomplished outside the bank.

However, banks should be very careful of the vendors they use. We've sung this song before but want to explore a bit more the danger of outsourcing to organizations that offer small business clients loans or take deposits. The simple math in this situation is that it is just a really bad idea to put money in your competitor's pocket so it is time to stop.

True also, management and board concerns should go deeper. Consider the information they will gather about you, your clients, your strengths and weaknesses. What about conflicts of interest? Consider how odd it is for the bond brokerage firm that sold you the bonds in the first place to then manage your ALM and price the value of your bonds on the back end. Wouldn't it always seem to make sense that they would recommend increasing the size of your portfolio or selling bonds to "monetize" something? This is such an obvious conflict of interest that we are really surprised regulators even allow it or that bankers even want it. Apathy and simplicity are two likely reasons, but they are not good ones anymore given such conflicts and extreme market competition for loans and other services.

Now take a moment to think about how your bank calculates the profitability of loans or deposits. Is this outsourced too, are you using software, are you sharing information with another bank here or a vendor that doesn't compete with you for your very same customers? This is a core profit driver and yet some banks still send data to other competitor banks that take deposit or make loans - now they can see how you price your loans, as they decide when and how to compete.

Finally, consider loan hedging. Here again it is important to be 100% sure the firm you are talking to isn't another bank that could come into your market and take your best customers. It is highly risky to share your underwriting documents with another bank because when you think about it, these are the keys to the kingdom and they can now see not only your process, but also your rate structure. Chances are that your hedge customer is one of your most valuable, a larger credit with quality collateral.

It doesn't make sense to share information with any competitor if it can be avoided. PCBB exists to help you with all of these issues as a non-competitor and we want you to win. Perhaps it is time to review every vendor your bank does business with and look at their other lines of business. If they are buried inside a bank, in active merger mode or are offering services that are "free" or included if you do other business be skeptical. Keep the \$1,000 buck tip and give these spies another tip - they aren't going to get any information on any customers on your watch. You will be glad you did and we can help you protect your business because we don't compete ever. All of our customers are community financial institutions and we are standing by to help you succeed.

BANK NEWS

M&A

Pioneer Bank SSB (\$251mm, TX) will acquire Union State Bank (\$37mm, TX) for an undisclosed sum.

Divestiture

Citing regulatory burden and low profits, Cape Bank (\$1.1B, NJ) said it has exited the residential mortgage loan business.

Better Mobile

Citigroup announced it is piloting a mobile feature that will allow customers to check deposit balances, recent transactions and credit card balances without having to log into the bank's app.

Economic Recovery

A PWC study finds as of 3Q, the U.S. economy was 4% bigger than it was in 2007.

At Home

Pew Research finds 36% of Gen Y (Millennials) lived with their parents in the past year, the highest percentage of young adults living at home in 40Ys.

Growth

A PWC survey of CEOs worldwide finds nearly 33% see increased share in existing markets as the main opportunity for growth this year vs. 14% who say it will come from new geographic markets.

Social

Facebook says in an SEC filing that somewhere around 5.5% to 11.2% of its total user accounts are fakes (mostly duplicate accounts or misclassified).

Branch Purchase

Service Credit Union (\$127mm, NH) will acquire a branch from Members First Credit Union (\$142mm, NH) for an undisclosed sum.

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