Vendor Diligence & Customer Service

by Steve Brown

Returning from a business trip recently, we had some heavy stuff in the carry-on bag, so we decided to check it. Upon arrival at our destination though, we found our suitcase had not made the connection and wasn't there. As we pondered where to buy toothpaste, a toothbrush and other items, we approached the customer service area for this airline. Here we found the pleasant but clearly overburdened customer service agent who explained we could wait 4 hours for the next flight to come in with the bag or it could be sent to the hotel by FedEx. That sounded reasonable, so we jumped into a cab and headed to the hotel. Unfortunately, a Friday afternoon arrival like ours prompted a Monday morning luggage delivery. You see, in technical terms the bag wasn't lost, it just missed the connection.

We made phone calls to airline customer service to ask about the policy and were very surprised. The agent explained that the airline had designated the distance they would use next-day couriers (we were 3 miles too far) and beyond that, the problem was not the airline's fault, but FedEx's delivery schedule. This airline has always used couriers before, but it seems now that a 3 day delivery for a delayed bag is a matter of policy. Most surprising, the airline deemed that the 3rd party vendor's schedule was responsible and not them. This is even though the dissatisfying outcome was entirely the result of decisions made by the airline and we did not care about their other vendors.

Banks use many third party vendors and know well that vendor performance can dramatically affect a customer's experience and perception of the bank. We rarely tell internal stories but an event that PCBB's Cash Management Team recently related offered a good lesson about customer service. It showed what is possible when there is a good partnership.

There was a big Snowmageddon weather event in the Southeast that closed down a number of big cities like Atlanta for several days. Ice on the roads meant no one could get to work, but life must go on. For one customer bank of ours, there were crucial ACH transfers that needed to go out, some of which specifically related to a number of customers' payrolls. Unfortunately for the bank in a shut down major city, its staff could not get to the bank to do the necessary transfers. It was at this point the bank also found out its business continuity plan had holes in it.

The bank had only one staff member with a laptop at home that could access the system, but their procedure (correctly) required dual control for cash transfer transactions. In that the bank's staff was known to ours, we worked with this bank to solve the problem by other means. Our cash management team worked closely with bank using the one functioning computer and otherwise did everything outside normal avenues. In the end everything flowed smoothly and money got to the Fed on time. Try getting that done with another so-called correspondent!

As your bank reviews its business continuity/disaster recovery plans from time to time, this lesson is important. It reminds us all of the importance of ascertaining whether third party vendors can function if your organization is not functioning normally. Further, it reminds us how important it is to have staff adequately trained to function no matter the circumstances. Think beyond a drawer full of SSAE 16 (the old SAS 70) notebooks, because in the instance of a real business continuity circumstance, it may not mean much. We are happy we could help this bank and others during such an event and since we never compete for a community bank's customers, we are pleased to be considered as your business continuity partner.

Vendors can either enhance or harm the perception of your bank, though really they should be silent partners. As for our airline experience, their decision to blame a third party for their corporate decision did not fly and certainly changed our perception of their overall quality.

BANK NEWS

4Q FDIC Balance Sheet

Our analysis of community banks $1B and < finds the following YOY changes in key balance sheet metrics from the latest FDIC data: number of institutions -225 (-4.0%) to 5,336; employees (-2.6%); assets (-2.1%), cash (-16.1%); securities (-0.3%); loans (+0.2%); loss allowance (-8.5%); premises/fixed assets (-1.8%); OREO (-23.4%); deposits (-2.0%); subordinated debt (-24.9%); capital (-3.8%).

4Q FDIC Loan Portfolio

Our analysis of community banks $1B and < finds the following YOY changes in loan portfolio from the latest FDIC data: construction/land (+0.2%); CRE owner occupied (-1.7%); CRE investor (+0.1%); multifamily (+1.7%); SFR (-2.5%); farmland (+4.8%); farm loans (+7.2%); C&I (+1.1%); credit cards (+0.6%); auto (-2.6%); other consumer (+2.7%); municipal loans (+5.4%); lease financing receivables (+2.1%) and loans to banks (+15.0%).

4Q FDIC Other Metrics

Our analysis of community banks $1B and < finds the following YOY changes in various key metrics from the latest FDIC data: noncurrent loans (-25.1%); long term assets >5Ys (+7.2%); life insurance assets (+8.0%); FHLB advances (+2.7%); asset yield of 4.23% (-26bps or -5.8%); cost of funds 0.54% (-17bps or -23.4%); NIM 3.69% (-10bps or -2.6%); ROA 0.85% (+7bps or 8.3%); ROE 7.70% (+67bps or 9.5%); efficiency ratio 73.84% (+34bps or +0.5%); loss allowance to loans 1.69% (-14bps or -7.4%); noncurrent loans to loans 1.77% (-50bps or -22.0%) and loan to deposit ratio 69.0% (+110bps or +1.6%).