

## Finding The Right Fit

by [Steve Brown](#)

We watched a lot of TV during the Olympics and were struck by the fact that athletes of all varieties developed certain physical traits according to their training and the demands of their sport. It is impossible not to notice the lower body development of alpine skiers and speed skaters. They have prodigious strength in their legs and lower body. A recent New York Times article in fact, interviewed a number of alpine skiers about their unique physiques and in particular about their difficulty in buying pants that fit. The athletes related that if they manage to find pants that fit their thighs and derriere, then the waist probably has room for an extra beach ball. We had always assumed that those nifty skin suits were for aerodynamics, but it may be the only thing that fits.

Sometimes it's not easy to find a good fit for community banks either when looking for the necessary partnerships to efficiently run a bank. Beyond finding partners for basic functions and compliance with regulations, banks need partners who can help them perform better.

Loan hedging is becoming an important subject for banks, both from a performance and a risk management standpoint. As the implications of higher interest rates become clear to business borrowers, more are asking their banks to lock in low rates on loans for as long as possible. The average community bank is likely to offer a 5Y fixed-rate loan as a first step to keep the business and then extend longer as competition dictates. This is a basic approach, but a good customer with a good-sized CRE loan means chances are higher that a big bank down the street knows about this customer and will offer a 10Y to 25Y fixed rate loan. The big banks do not hold such long term loans on their own balance sheets (and take on that level of interest rate risk of course), but rather hedge them.

Doing so gives the customer what they want (predictable long-term loan payments no matter where rates go) and the bank gets what it wants (floating rate assets that move with funding costs and rise when rates rise). Community banks can hedge like the biggest banks using swaps, but there are some nasty accounting requirements, ISDA documentation, mark-to-market issues and other requirements from counterparties that go with this.

As a non-competing bankers' bank, PCBB's hedging program (BLP) was designed specifically to help community banks, so it eliminates these issues and simplifies the structure. The hedging requirements remain, but we do those on our books so you don't have to. Instead, BLP lets you focus on your good customers as you lock them down for longer fixed rate terms and have floating rate loans on your books.

Our BLP hedging solution has been in place for 7Ys and has been used by many, many banks throughout the country trying to solve this issue. It has also passed muster with regulators and accounting firms numerous times, who have seen it in action at community bankers they have visited. It is simple, easy to understand, easy to use and it solves a key issue facing community bankers right now - too much interest rate risk.

Interest rate risk is in quiet winter hibernation on bank balance sheets, for now, but Fed rate hikes loom large on the horizon. Hedging loans is a smart way for bankers to manage some of this risk and

to keep valuable customers. While it may be good for a skier's performance to make one part of their body larger than another, the same cannot be said for interest rate risk in banking. Too many fixed rate assets supported by too many floating rate deposits just won't work over time, so care must be taken to manage this risk.

## **BANK NEWS**

### **M&A**

Chemical Bank (\$6.2B, MI) will acquire Northwestern Bank (\$838mm, MI) for \$120mm in cash.

### **M&A**

Alerus Financial (\$1.4B, ND) will acquire Private Bank Minnesota (\$142mm, MN) for an undisclosed sum.

### **M&A**

Ameris Bank (\$3.7B, GA) will buy The Coastal Bank (\$433mm, GA) for about \$37mm.

### **Branch Sale**

Bank of America will sell 10 branches in KS to banks operating in the state.

### **Branch Closures**

FirstMerit Bank (\$23.9B, OH) said it will close 26 branches as it seeks to consolidate networks and adapt to changing customer behaviors (more online and mobile banking).

### **Layoffs**

Bank of America will lay off 156 employees in its TX mortgage operations unit according to the Fort Worth Star-Telegram.

### **Loan Competition**

BBVA Compass Bancshares said it has received regulatory approval to open new loan offices in Charlotte, NC; Los Angeles, CA; Nashville, TN; Raleigh, NC; San Francisco, CA and Seattle, WA. The move follows a similar one last year when Compass opened 12 such offices in NY, DC and FL.

### **Mobile**

Javelin Strategy & Research finds 34% of customers at large banks use mobile banking vs. 14% at community banks.

### **Mobile**

Pew Research finds 56% of all adults in the U.S. use smartphones - a 10% increase over the prior 12 months.

### **Boomer Kids**

Since so many community bankers work with Baby Boomers and their businesses, you might find it interesting to know TD Ameritrade indicates 33% of boomers with \$3mm or more do not think their children are prepared to handle their wealth.

### **Competition**

Citibank said it pushed small business lending to \$9.1B in 2013, about double the level of 2009.

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