The Art Of Surprising Customer Service

by Steve Brown

There is an art museum in Santa Fe, NM dedicated to the artistic legacy of Georgia O'Keefe, an internationally known painter and sculptor who lived in Northern New Mexico for the latter part of her life. Though small and specialized, it is the most visited art museum in a state renowned for its artistic heritage.

One remarkable aspect to the museum is that the security guards are quite versed in the history of the paintings and the artist herself, and they spend their day explaining the significance and history to museum visitors. We've traveled abroad and have visited many art museums. To us, museum guards generally tend to look and act like prison guards - slightly scary, a little sullen and carefully watching the priceless treasures in their care. The O'Keefe paintings are worth millions, the guards watch closely, but their engagement makes for a more informed and enjoyable visit. It probably helps the guards gauge harmful intent too, but who knows. This unique customer-centric focus distinguishes what otherwise might be considered a minor museum.

Many community banks we know operate a similar model. The bank prospers as a smaller organization that doesn't offer every product and service, but instead has singular expertise in certain areas of business, friendly and capable customer service, and the ability to make doing business surprisingly fun. While lack of diversification may work well for an art museum, in banking it can lead to credit problems and regulatory scrutiny. Specialization is one thing, concentrations are another.

Pre-crisis, many banks took on commercial real estate (CRE) concentrations and during the crisis those same banks found that what had previously been an area of competence and a major profit center for the bank suddenly had an amplified effect in the opposite direction as business conditions deteriorated. Borrowers lost their ability to repay their loans and underlying collateral values dropped dramatically as property values plunged. As a result, the regulatory community stepped up with requirements that banks with high concentrations of CRE should undergo more rigorous analysis including stress testing.

Now that the crisis is behind bankers, CRE loans are increasing once again and for the third quarter in a row. In fact, as of Dec 2013, CRE loans as a percentage of total loans increased by 2.8% and are up 15.9% compared to 2Ys ago. Not only is the overall quantity higher, but as a percentage of total loan portfolios there has been an increase.

This isn't worrisome though to bankers, as nearly all have tightened up underwriting and risk management, but regulators may not agree. They are again looking closely at banks with CRE concentrations as a percentage of total risk-based capital over 300% (requires a robust risk management process including stress testing). Nationwide, of the 335 banks in the U.S. with CRE concentrations over 300%, more than 67% had assets less than $500mm.

Diversification is a long held method to shift correlation as you seek to manage risk in the overall loan portfolio. Correlation is the measure of how different loans in the portfolio behave when rates move, conditions change and other factors come into play. The goal of diversification and managing correlation is to ensure loans in your portfolio do not move in the same way with the same frequency when conditions around your bank change.

For banks that have a good CRE loan origination program that are seeking diversification adding C&I loans can be an option worthy of consideration. Such loans can deliver the kinds of industries and credits that might not easily be found in a specific geographic footprint.

If your loan demand needs a lift or you are seeking diversification or more C&I loans for your portfolio give us a call. We have a shared national credit program and loans available to assist you.

While the O'Keefe museum may not want a Norman Rockwell in its lobby, having a little diversification is a good plan for banks. Let us know if you would like to receive PCBB's C&I pipeline report or to see a WebEx on the program.

BANK NEWS

Bank Closed (6 YTD)

Regulators closed Allendale County Bank ($55mm, SC) and sold it to Palmetto State Bank ($422mm, SC). Palmetto gets 5 branches, all deposits and essentially all of the assets.

M&A

Seacoast National Bank ($2.3B, FL) will acquire BankFIRST ($652mm, FL) for about $76.1mm.

M&A

Banner Bank ($4.2B, WA) will acquire Idaho Banking Co. ($100mm, ID) for $2.6mm.

M&A

Peoples National Bank of Mora ($161mm, MN) will acquire Neighborhood National Bank ($47mm, MN) for an undisclosed sum.

Branch Sale

NBRS Financial ($207mm, MD) will sell a branch to Howard Bank ($500mm, MD) for an undisclosed sum. Howard gets $17mm in loans and $21mm in deposits.

Branch Sale

Vantagesouth Bank ($2.1B, NC) will sell or close 5 underperforming branches as it seeks to cut costs and improve performance.

Branch Closures

Union First Market Bank ($4.2B, VA) will close 13 branches as it seeks to save expenses.

Checking Accounts

Research by Moebs Services finds only 59% of banks currently offer free checking accounts vs. 80% in Q1 2010.

No Demand

The latest data shows mortgage refinancing demand has fallen to the lowest level in 14Ys.