An Idea To Grow Loans By Avoiding Moths

by Steve Brown

OK, we are getting burned out on animal and insect life introductions here ourselves, so today is the last one for awhile. In that regard, we notice some of our animal friends are evident once again with the changing of the seasons. The skunks are nested under the garden shed and moths are clustered around the screen door waiting to dive inside the house when someone steps out to pick up the morning paper. Once in the house, moths become especially active at night, flinging themselves against the windows trying to get out. Some types of moths migrate, moving from the Great Plains to higher elevations in search of flowering plants and new leaves on trees. Their only food source is new plant growth and in fact, they have no interest in established leaves and plants. Once there is no new plant growth to be found, they will lay their eggs and perish.

As with these moths, bankers too are looking for new growth --especially in their loan portfolios. According to a recent PCBB survey of a few hundred community bankers, many bankers think they will find significant growth this year, so that is a good sign. While there is nothing new about the desire to grow the loan portfolio, for many bankers optimism has been hard to find lately. As for current challenges, as you might expect, most bankers said maintaining and growing the loan portfolio was their area of greatest concern, followed by earnings. Finally, when asked to project their biggest challenge looking forward for the next 5Ys, compressing NIM, earnings and regulation were far ahead of concern over loan portfolio growth. As for loan growth challenges, 58% said competition for loan customers was high and 24% said it was extreme.

Despite all of these issues, a full 63% expect their loan portfolios to grow by more than 5% this year and another 24% expect portfolio growth of 3% to 5%. Economists also expect lending activity to pick up nationwide (by 7% or 8%), but given the difficulty community banks have had boarding loans in recent years, the number of banks expecting this level of increase took us a bit by surprise. We are not necessarily recommending that banks curb their enthusiasm, but we do suggest careful planning.

A few final metrics to share with you this morning come from the same group of community bankers. Along the lines of holding onto existing customers, 61% said they used declining balance prepayment penalties (a true penalty), while 27% said they don't use prepayments much at all (so customers are fully available to refinance). Perhaps it is time to consider reviewing what your bank is doing to be sure you aren't leaving the door wide open to a moth or prepayment invasion.

For banks at least, migration should not be necessary to find loan growth. Nonetheless, be sure to plan your bank's growth carefully, measure the risk adjusted return (we have a tool you can use if you wish) and especially understand the value of relationships in order to price everything appropriately (we have another tool here as well if you are interested).

We are here to help your team keep existing loans, capture new customers and structure loans to enhance your performance over time, so call us if we can help. In the meantime, be sure to close the screen door for peaceful sleep and to keep your clothes safe from moths. Enjoy the summer season.

BANK NEWS

Weaker Growth

The FOMC reduced its forecast range for GDP growth at the most recent meeting from 2.8% to 3.0% down to a range of 2.1% to 2.3% this year. Meanwhile, it held 2015 and 2016 at prior range projections of 3.0% to 3.2% and 2.5% to 3.0%, respectively.

Economic Growth

Economist Martin Feldstein points out that the $10T in wealth gain in 2013 will boost consumer spending in 2014 by $400B or about 2.5% of GDP.

Fined

Bloomberg reports Bank of America will pay $8mm to settle claims Merrill Lynch improperly charged fees that were not required to almost 48,000 customers for mutual funds. The fine covers activity from 2006 to 2011.

Retirement Borrowing

A survey by TIAA-CREF finds about 33% of retirement plan participants have borrowed against their plan and 43% of those have done so at least 2x. Paying off debt, emergency expenditures and home renovations were the three most common reasons cited.

M&A

A Deloitte survey of 2,500 corporate and private equity respondents finds 84% expect a sustained to accelerated rate of M&A activity in the next 2Ys. Key factors cited include cash stockpiles (more cash to buy), rising equity prices (a stronger currency for acquiring companies to use), low interest rates (providing easier borrowing) and a moderate expected economic growth rate (not fast enough for some firms). By sector, firms the group saw as most likely to see deal activity in order were the technology, health care, energy, banking and securities industries.

Compensation

A survey by Bank Director finds that banks say the top compensation challenges they are facing this year are tying compensation to performance (66%), retaining key people (47%), compensation and benefit costs (40%), competitive pay (33%) and developing a succession plan (31%).