Who Is A Hot Prospect?

by Steve Brown

In the 1959 film "Some Like it Hot," Marilyn Monroe plays the role of Sugar Kane, a beautiful ukulele player who is part of a Chicago-based all-girl band headed to perform in Florida. Just as the show is about to leave Chicago, two new "girls" join the band. It turns out to be Tony Curtis and Jack Lemmon in disguise hiding from the mob after accidentally witnessing a crime. As the movie continues, they also quickly fall for Sugar and she confides in her new friends that, having fallen for one too many irresponsible male saxophone players, she is determined to meet a wealthy man with glasses. Her thought is that "They get those weak eyes from reading - you know, those long tiny little columns in the Wall Street Journal."

We couldn't help but think about the efforts of community banks to identify the most attractive loan prospects as they strive to boost their bottom lines by increasing loan activity. Unfortunately for the banking industry, simply favoring bespectacled customers isn't a practical way of identifying attractive borrowers or building a strong portfolio of loans. Instead, banks must have a clear method for quickly identifying quality credits and to make sure key employees are well versed in these metrics. Done properly, this approach will make sure loan officers do not waste their time by working on deals they will ultimately be unable to close.

A bank's board, along with senior management, should take time to draft a clearly identifiable methodology and put policies in place that allow employees to quickly identify which loan applicants are strong credits and which would open the bank to unnecessary risk. It is also important to educate employees throughout the bank about the importance of avoiding risky loans from the start. Beyond wasting staff time, potential borrowers who do not meet lending requirements are likely to feel that the bank unnecessarily wasted their time as well. Angry customers are much more likely to tell everyone they know of their experience and the result is reputational damage to the bank.

Banks should also take the time to make sure all employees, from loan officers to tellers, understand not only what their institution's risk metrics are, but why they exist and the instances where there may be exceptions to the rules. In commercial lending, debt service coverage, collateral and LTV are typical metrics. In consumer lending, the importance of a loan applicant's cash flow, collateral and credit scores are common. Employees involved in the initial screening phase of loan applications should be taught to inquire in cases where minor issues like an applicant's failure to update an address change with a credit card company caused damage to a credit score.

Educating all levels of staff on how to identify strong loan possibilities is important because potential loans can be identified through simple conversations. Tellers can often start the ball rolling by making small talk with customers about their upcoming plans. If a teller is informed about the importance of passing on such leads, or even better, is incentivized, they are more likely to become an active contributor and drum lending activities up.

While people with glasses may be brainy (or not), we know that it probably says nothing about whether they are qualified borrowers. Good borrowers may indeed be in disguise, so everyone who is customer-facing in the bank should have insight into what a good loan customer looks like and what their primary characteristics are. It will help uncover beautiful opportunities quickly as you build quality business going forward.

BANK NEWS

Growth Obstacles

A Deloitte report on middle market company perspectives finds the greatest obstacles cited to US growth over the next 12 months are: rising health care costs (50%); government budget challenges (49%) & high tax rates (44%).

Mobile Banking

Research finds about 40% of people with smartphones who also have bank accounts said they had used mobile banking vs. 29% just 2Ys prior. Meanwhile, those who said they used it 1x per week jumped to 45% vs. 37% over the same period according to RateWatch.

Just Transactions

Research by Accenture finds about 75% of people now say their relationship with their bank is primarily transactional.

More Reward

A survey by Ipsos and the ABA finds 83% of people use rewards programs with their credit cards vs. 77% who said so about 3Ys ago.

Small Biz

The NFIB reports that over the time since the credit crisis, only 8% of businesses have said it was a good time to expand vs. a historical average of 17%. In the past year though, the percentage has reached 12%, so things are moving in the right direction at least. This recovery is good news for loan demand so let's hope things keep moving in a positive direction.

Debt Problem

RealtyTrac reports 7.4mm home borrowers remain seriously underwater (loan 25%+ higher than property estimated market value) on their mortgages. That represents about 13% of all properties with a mortgage.

Savings Analysis

Banks may be interested to note that recently released research by Hearts & Wallets finds average annual household savings increased from 5.5% in 2014 vs. 4.6% in 2013. Of note, the survey also found that the percentage of households that said they set aside money to deal with unexpected expenses jumped to 45% in 2014 vs. 37% in 2013.

Operational Risk

A Deloitte survey of global risk managers finds respondents most often said their institution places an extremely or very high priority on managing these risks: clients, products and business practices (74%); business disruption and system failures (74%) and execution, delivery, and process management (74%).

Balancing Work

Research by HR firms WorkplaceTrends and CareerArc finds 67% of HR professionals think employees have a balanced work-life but 45% of employees say they don't have enough time to do personal activities each week.