Singing To The Music Of These Changing Times

by Steve Brown

"The times they are a-changin'," crooned Bob Dylan in 1964, referring to major societal disruption. He warned, "Come writers and critics who prophesize with your pen, and keep your eyes wide, the chance won't come again." Who would have imagined his words could apply 51Ys later to the banking industry?

Of course, the prophesiers in this case are not writers and critics, but rather consultants and professionals, who foresee legacy banks losing mortgage lending market share to nonbank lenders over the next 5Ys.

Consider a recent report by Inside Mortgage Finance. It found that as of Q1, nonbank mortgage lenders accounted for just over 43% of total originations produced by the top 100 lenders vs. 38% one year prior and only 7.5% back in 2011. Meanwhile, nonbanks controlled 29% of the top 50 portfolios vs. 27% one year prior.

Given massive regulation and perhaps these changing tides toward nonbanks, it is interesting to read that JD Power and Associates' 2014 "Latest Annual US Customer Satisfaction Index Score by Category" found residential mortgage servicing ranked near the bottom for customer satisfaction and residential mortgage origination did not fare much better.

When it comes to residential lending, online nonbank lenders are transforming the mortgage industry. Even if your community bank isn't a big player in mortgage lending there are some trends occurring here that are worth studying and perhaps emulating.

To begin, it is important to understand what drives people to go online when seeking loans. Some portion of people is frustrated with banks perhaps, while others just appreciate the online process. In addition, the online application-to-approval process is often significantly shorter than the paper process and customers like the convenience and simplicity of completing and submitting an electronic application online.

This is made even more convenient over time as mobile technology continues to be enhanced. Consider mobile speeds up communication between lender and borrower and some borrowers just find it more convenient to transact business through email, text, online chat or Web cam. For the bank, there are obvious cost savings in shortening and automating the loan origination process as well.

You don't have to be a Dylan fan to fine tune your loan origination processes and leverage the techniques of nonbank online lenders. Start by creating a streamlined beginning-to-end customer experience and take it online. Once in place, tweak your website to make applying for a loan simple and easy-to-do. Then, look to increase mobility and simplicity as you augment your offerings with customer tools like a loan payment calculator, pre-application qualifying form, and quick links for example.

Once you have your website landing place ready to roll, you can then ramp up online marketing, including social media, to drive potential customers to the website as you gather valuable information you can leverage. Over time, you can even layer in more advanced customer analytics that can produce detailed profiles of potential customers, your marketplace and enable you to more quickly meet customer needs. Such predictive analytics can also help your bank anticipate customer behaviors and identify customer triggers for selecting a lender.

No matter what you do, customization through digital channels will only serve to enhance your brand over time. The key is to always try to balance technology enhancements with the local warmth that makes you a community bank to begin with.

BANK NEWS

M&A Activity

1) Great Western Bank ($9.8B, SD) will acquire Home Federal Bank ($1.2B, SD) for about $140mm in cash (25%) and stock (75%). 2) The First National Bank of Norway ($96mm, MI) will acquire First National Bank of Crystal Falls ($73mm, MI) for an undisclosed sum.

Emergency Lending

The Fed has approved a rule that would reduce emergency lending actions and support to be limited to benefiting broad-based market sectors (at least 5 institutions) vs. individual firms. Further, the Fed can no longer lend to failing firms on a singular basis, defines insolvency as an inability to pay obligations in the preceding 90 days or where the Fed determines the institution is insolvent, prohibits emergency loan funding from being lent to another entity to protect it against bankruptcy and bars entities in conservatorship from being eligible for emergency loans.

Regulatory Focus

Recent Fed reports indicate areas flagged as carrying higher risk include: cybersecurity (continue to evolve in complexity and frequency); BSA/AML (suspicious activity, customer due diligence, risk assessments); interest rate risk (longer asset maturities, non maturity deposit concentrations that funds may disintermediate or transition to higher-cost deposits); loan growth quality (rising underwriting concessions, weaker covenants, aggressive loan pricing); overhead expense ratios (too low to support asset growth, internal controls and compliance programs); and CRE concentrations (high exposures especially in construction and land development can lead to severe credit issues and bank failure).

Biz Continuity

Community bankers should suggest small business customers take the time to understand who key suppliers are and identify backup providers to avoid disruption, loss and potentially going out of business in unexpected situations. A Zurich Insurance survey finds 10% of small and medium-sized businesses could not identify their primary suppliers, while 74% had suffered a supplier-related issue (cyber attacks, weather, IT outages) in the past year.

Job Cuts

Morgan Stanley reportedly plans to cut up to 25% of its fixed income team as higher capital requirements, fewer customer transactions, more electronic trading and other factors have all driven down revenues and returns over time.