Happy Bankers & Happy Customers

by Steve Brown

Never underestimate how angry people can become over having to pay fees. Unless you are very young, odds are good that you or your family once owned a videocassette recorder. You probably went to your local Blockbuster store to rent VHS tapes to watch movies on it. Fast forward a mere 9Ys from the first Blockbuster opening in TX in 1985 to becoming the world's largest video rental chain by 1994. Then fast forward another 14Ys to its eventual demise in bankruptcy in 2013. Blockbuster was great at charging fees, but unfortunately it charged the founder of Netflix. That made him so mad he built a company that eventually played a big role in putting them out of business.

If Blockbuster's story is indicative of anything it is the importance of being open to hearing customer feedback, not getting complacent and remaining flexible as you adapt to changing industry conditions. Given all the technology, customer and regulatory changes whirling around the banking industry, community bankers are wary and rapidly adjusting to it all.

However, in the wake of lingering low interest rates, and faced with increasing competition from major banking chains, fintech nonbanks and others, community bankers are constantly telling us that holding onto good credits and customers is intensely difficult. In particular, we've consistently heard concerns about the difficulty of balancing the decline in margins that has resulted from low interest rates with customers actively seeking to lock in loan rates for longer periods given such low levels.

At a time when the Fed seems to be raising interest rates (albeit slowly), which helps banks with floating rate loans, it can be frustrating when customers want a fixed rate loan that goes so long on the maturity spectrum. We completely understand that this dichotomy has pushed banks into an uncomfortable position of lengthening asset maturities while keeping funding short in order to maintain margin.

Things here have become so unbalanced over the past few years, that regulators have flagged lengthening asset maturities as one of the top 5 risks at banks right now. As a result, they are beginning to crack down in interest rate risk exposures, warning banks to take action to understand and protect themselves against a rising interest rate environment, higher concentrations in longer-dated assets and the potential impact that could come from muted asset repricing and potential mismatches in rate sensitive assets and liabilities. Further, regulators have really ramped up their communications that banks need to be ready for higher rates and take actions to adequately prepare, so once again an ounce of prevention here is worth a pound of cure.

As we close out today, we leave you with a few more things to consider. Here, we suggest switching to the customer viewpoint. So, if you consider the blinking lights point to higher rates, you want a floating rate loan (so you make more money), but the customer wants a fixed rate loan (so they don't feel that pain). Further, if the customer gets a floating rate loan and rates increase, they are going to pay you more, which means they are going to have a higher debt service cost. If rates go too high, that adds strain or even failure. Then, when you sprinkle in issues your customer is already facing like global competition (that makes it harder for them to make money), shifting customer habits (more difficult to sell things to their own customers) and a host of other factors, the long term game points to ongoing customer strain that translates into increased loan repayment risk.

Fortunately for community banks, there is a simple solution for all of the above scenarios: hedging your loans. Because of the myriad of complexities involved in hedging--from the seemingly endless and ever-changing accounting rules that need to be taken into consideration, to the extensive paperwork involved with undertaking this strategy, PCBB has created a hedging solution that boils everything down into a simple solution. It gives your customer a fixed rate loan and it gives you a floating rate so you can rise with the tide as the Fed does its work.

This structure also avoids the Blockbuster/Netflix situation because the customer gets what they want and so does the bank so everyone remains happy. To learn more about how easy this process can be, join us at one of our free online webinars by registering on our website at: www.pcbb.com/company/events/

BANK NEWS

Customer Marketing

A survey by Infusionsoft and LeadPages finds small business owners say the following when asked who does their marketing: I do (47%), someone on my team (24%), we do some in-house and contract the rest (17%), I don't know (7%) and we pay a contractor, agency or third party (6%).

Cyber Considerations

A report from the FBI offers the following other tips banks and your customers can take to protect against ransomware: implement application whitelisting (filtering that only allows specified email addresses to get through); only allow systems to execute programs known and permitted by security policy; execute operating system environments or specific programs in a virtualized (rather than actual) environment; categorize data based on organizational value; and implement physical/logical separation of networks and data for different organizational units.