Parent Banks And Taking Care Of Business

by Steve Brown

We found a report by real estate research firm ATTOM Data Solutions on home ownership quite interesting. It found the percentage of non-married people who got mortgages together climbed from 20% last year to 22% this year. That was one of the highlights, but digging deeper into the data what jumps out is that many "unmarried" co-signers (or co-borrowers) were the parents of children who bought homes. Perhaps this is due to heavy student loan debt or just really nice parents, but it appears a decent chunk of home buying is being subsidized by parents.

As you let that sink in this morning, we point out something else for you to consider as a small business lender. We note that at least some portion of the parents above also own small businesses, so that might change your risk profile. We bring this up because community banks account for more than 50% of small business loan volume.

Now that we have successfully transitioned you over to thinking about small business customers, we note that an increase in competition means prized business customers will have to be identified and protected. Reviewing these customers, ramping up marketing and increasing sales efforts are all likely to be part of the mix going forward.

Community banks also account for almost 50% of commercial real estate lending and hold about 20% of the nation's banking assets. So, to help our community bank readers today, we offer the following tips as ways you can creatively stay competitive, as you continue to grow your business customer base.

Reduce the paper - Since the lending process can be paper-intensive and perhaps somewhat inefficient for both borrowers and the bank, this is an area of opportunity. With the available options increasing, community banks may want to consider utilizing technology to further reduce costly and cumbersome elements of loan origination. This type of move could save your bank money and management costs, and engage support from small business customers.

Streamline small-dollar loans - As you have no doubt heard from your relationship managers, a credit request to purchase a commercial vehicle can be complicated and take much longer to process than an identical request to purchase a consumer vehicle. With this in mind, review the number and types of small-dollar loans your staff processes and seek to streamline. Using a profitability program can also help you see this more easily. Streamlining or eliminating some of these small-dollar loans would also allow your bankers to focus on business development or activities that may provide a higher value to the small business customer. Case in point: Dissatisfaction with credit services is a central issue that causes small businesses to switch their primary banking relationships, according to Barlow Research data.

Review opportunities to expedite loans - Bank executives and lending professionals already consider which credit requests will be subjected to an expedited process and which ones won't. Perhaps it is time to revisit underwriting criteria for all and to challenge everything. How your team approaches loan renewals, underwriting and clearly understanding the lender's responsibility for ongoing customer relationship development are all key to the process. Evaluating all areas as you seek opportunities to accelerate the process may provide you with a boost.

Keep service quality and user experience high - It is no surprise that a recent Fed Small Business Credit Survey finds 75% of community banks' small business borrowers are satisfied. Your team can bring in new business borrowers by simplifying the onboarding process as you continue to hold the line of credit quality and provide a high level of service and convenience. Doing what you do best - staying engaged with your business clients (and maybe even their parents) - will keep them satisfied and grow your business.

BANK NEWS

M&A Activity

1) 14 bank holding company Glacier Bancorp ($9.6B, MT) will acquire Collegiate Peaks Bank ($469mm, CO) for about $73.9mm in cash (22%) and stock (78%) or about 1.92x tangible book.

Deposit Rates

Goldman Sachs has increased its deposit rate to a whopping 1.20% vs. a national average of 0.06%. This will add pressure to funding costs in the industry, as Goldman is a large bank at $156B in assets and extremely well recognized.

Bailout

Spanish banking giant Banco Santander (largest bank in Spain) will acquire struggling Banco Popular (6th biggest bank in Spain) for a single Euro. Regulators determined Popular was teetering on insolvency, so worked out the deal with Santander.

Better Growth

The OECD has boosted its global growth forecast to 3.5% for 2017 (a 6Y high) and 3.6% in 2018. Meanwhile, the group downgraded US economic projections to 2.1% for 2017 and 2.4% in 2018 (weaker dollar, lack of tax reform, political paralysis).

Digital Focus

Research by PwC finds 46% of consumers only use digital channels now for their banking activities vs. 27% just 4Ys ago.

Imperative

Research by Mercer finds 53% of respondents to an intelligence survey said their organizations viewed cybersecurity as imperative across the entire organization.

HEDGING FOR YOUR LOAN PORTFOLIO

With interest rates increasing, community bankers may find the need to hedge a portfolio of long-term fixed assets by locking in funding costs to protect NIM. For more information on how to do this: https://www.pcbb.com/products/hedge