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Community banks: Ready for prime time

BrandBank shows the way into the spotlight

BY MARK ANDERSON
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Tom Grady (left) and Darin Vogel of BrandBank feel the banks in the best position to win back the hearts, minds and pocketbooks of local customers are community banks. (Staff photo: Bill Klotz)

The financial industry broadly speaking has a black eye that's going to linger for a while.

But the embarrassment that the likes of Countryside Mortgage and Lehman Brothers earned in the last three years shouldn't cause long-term harm to the whole industry, said Tom Grady, principal in BrandBank, a new Plymouth-based marketing firm. In fact, the failings of the most reckless firms created an opportunity for well-run mom-and-pop banks all over the Midwest, he said

Grady and business partner Darin Vogel have been preaching that financial turmoil can give an advantage to hundreds of community banks in their target upper Midwest markets – as well as to Grady and Vogel's 9-month-old community bank advisory firm.

The message is that Wall Street and mortgage industry shenanigans made business and individual consumers skeptical; the banks in the best position to win back the hearts, minds and pocketbooks of local customers are their community banks.

"Really good bankers are going to use this as an opportunity to communicate more closely" with their customers and potential customers, Grady said. "A lot of people are rethinking their financial relationships, and they're putting greater weight on the relationship itself. They're ready to pay an eighth percent more in interest on a loan in order to have a banker who knows them, knows their business and will sit down with them, listen to their issues and be able to act quickly when that's needed."

It's a good story to tell in this uneasy financial climate, but Grady and Vogel say most small bankers have been slow to turn that into an advantage.

And that creates a niche for a company like BrandBank, Grady said.

"Most bankers look at marketing as an activity that's just slightly above taking out the trash," Grady said. By nature they're analysts, they like to weigh out business opportunities and measure risk, and they don't like to call attention to themselves.

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> — Tom Grady of BrandBank

During the last 18 months they've paid even less attention to marketing as their days filled up with the requirements of expanded regulatory oversight, loan workouts or the search for capital in a reluctant market.

All that left little time to think about marketing or about charting a long-term course in a changing marketplace.

But Grady points out that shortcoming in language that he said bankers readily understand. "If you're neglecting marketing at your bank, you're just not running a good business."

Strong marketing background

For Grady the importance of telling a financial story is clear. He's spent most of his career marketing financial products, working for big institutions like Scudder Investments and Deutsche Bank Asset Management before coming to Minneapolis in 2003 to join Marshall BankFirst.

That Minneapolis-based lender that grew rapidly during the last decade by originating real estate development loans in fast-growing markets across the U.S., and a big part of Grady's job was to sell portions of those loans through a network of 1,300 community banks – a job that helped him understand his new market.

"I wasn't a banker, I was marketing and selling Marshall products, but I met a lot of really smart people. I learned a lot about lending, about how bankers do their business, the questions they ask, the problems they face, and I think all that gives me credibility that somebody coming out of an advertising agency won't have."

He learned more lessons as Marshall collapsed in 2008 and 2009 along with those Sun Belt development markets, shutting down Marshall's loan origination group and the two banks that were part of its franchise.

The collapse left portions of bad loans sprinkled across the network that Grady created, but he said that record hasn't hampered BrandBank's launch.

Grady's Marshall background made no difference to Pete Anderson, president of KodaBank in Drayton, N.D., which was one of BrandBank's early clients. Anderson's contact with Marshall was limited to his knowledge of one of its franchise banks in Hallock, Minn. "And they were a very good, clean bank."

Anderson sought BrandBank's help in completing a merger of two small-town banks in neighboring towns. The owners of both banks were aiming to cut costs, share the regulatory burden, and position themselves for a more competitive marketplace.

"Banking's in a state of turmoil, and people are searching outside their communities, looking for banks that are strong and reliable" and the merger was designed to make the $74 million KodaBank one of those strong survivors.

"We want to show people we're here for the long term," Anderson said, and he credited BrandBank's program with delivering that. "They took the burden of that process off me, and they did it very well, they were very patient. And being a small shop, I think they fit well with us and understood our community."

Grady said community banks should match the message to the bank's skill and its customers' needs. Community banks won't beat banks like U.S. Bank or Wells Fargo Bank through advertising, but they can distinguish themselves by delivering financial advice and information – on planning, on deposit insurance, on lending terms and preparation – and doing that in setting that are convenient for their customers, from open houses to newsletters to just inviting customers in for coffee.

"It's a good time to know your banker, and this is the kind of time that community bankers can show customers that they're here, through good times and bad," Grady said. "That's the play, and we think that's going to help local banks take market share away from the big boys now."

David vs. Goliath: David wins!

Over the last few decades, community banks sometimes felt like they were in David-and-Goliath struggles as the nation's largest banks built up technological and distribution advantages that steadily narrowed the small banks' markets.

But the crisis that rocked the financial industry since late 2007 has changed the landscape again and could give community banks a little better footing, according to Tom Grady, founder and principal of BrandBank, a community bank adviser.

Grady published a small study this month in BrandBank's that gives some support to his case. He collated quarterly FDIC figures submitted by the nation's bank over the last five quarters, and divided the returns into two groups: banks with less than $1 billion in assets and those with more than $1 billion.

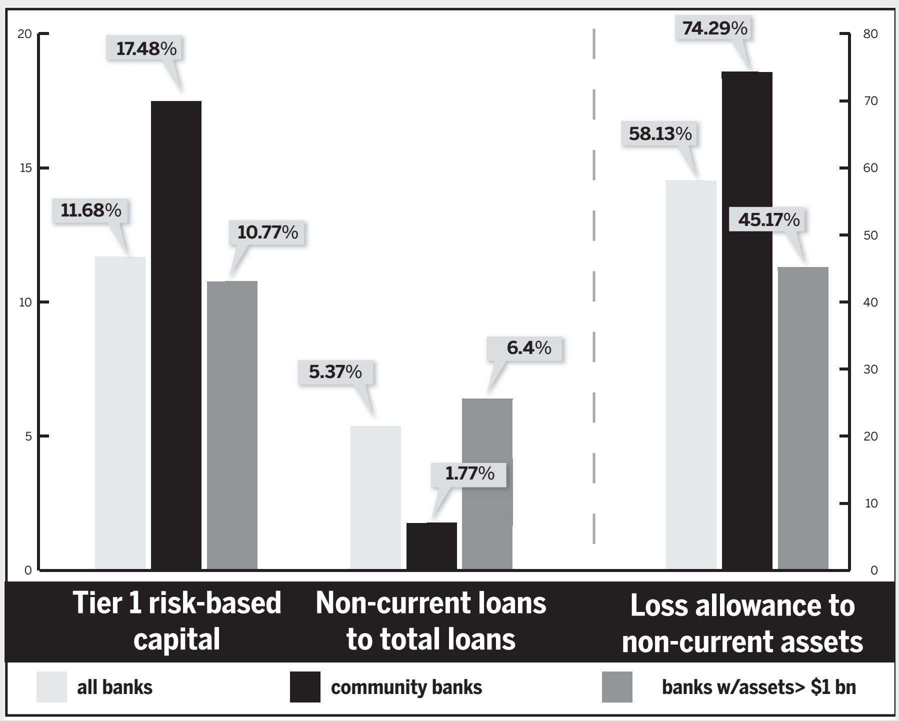
And the small banks came out on top: They had larger profit margins on their loans and leases, greater loss reserves and stronger capital positions.

"This isn't a scientific study," Grady admits but the numbers on seven key banking measures gave a strong advantage to the smaller banks.

"By and large, this says that community banks are better positioned relative to their big counterparts," Grady says. "They've already raised capital, they've set aside loss reserves. They've been proactive, and they've already done the pain and they've positioned themselves to be stronger going ahead."

See the full survey at www.BrandBankUSA.com

— Mark Anderson



Source: The BrandBank, FDIC

Three of the five measures in BrandBank's study shows that community banks had higher risk-weighted capital levels, lower portions of delinquent loans in their portfolios, and greater loss reserves than their larger peers.