

Watch out for the little guys

There's a tendency in some circles to adopt a tone of condescension in speaking about community banks; the equivalent of the owner of a big dog patting a little dog on the head, saying, "There's a nice little dog."

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Nice little dog, my foot. Ever seen a Jack Russell terrier? They'll take on a Great Dane!

So it is with community banks. They're sometimes painted with the brush of motherhood and apple pie, but behind that quaint facade many of them are savvy, profit-minded, aggressive business people. They do, for the most part, focus on Main Street, wherever that happens to be, lend to local businesses and embed themselves in the fabric of their communities. It's good, smart business to do so, and it's often a personal preference, as well. But community banks don't need altruism to justify their existence.

As Arthur Johnson, incoming chairman of the ABA, observes in the cover story (p. 20), big banks have advantages of scale in providing low-cost transactions, but that very scale hinders them in the area where community banks shine—individual attention.

Johnson's bank, United Bank of Michigan, Grand Rapids, is a good example of the vitality and relevance of community banks. Our cover profile of him is in part a case study of how a business can adapt to changes in its market and in its industry. Having known and interviewed many community bankers over several decades, Johnson, in our view, is not an aberration. He is simply a prime example of a practical, observant banker who knows his market, his industry, and his institution's abilities, and does a good job of keeping them in sync. In fact, the "big dogs" would do well to put his case study on their list of required reading.

Johnson's sharp "business sense" also gives him a well-informed perspective of banking as a business. With all the negative rhetoric swirling around the industry, for example, it's refreshing to hear someone say with conviction that there's nothing sinister about the concept of making money from an innovative new product—"That's what any good business person would do." Johnson made that point during a conversation about the financial crisis and its aftermath. But he also said, "When you start pushing each [new] element to the edge is when you get into trouble."

Trying to legislate and regulate all excess, however, is futile. As Johnson says at the conclusion of the article:

“You can’t outlaw the business cycle.”

The better approach is balance, which requires something more than competitive savvy. It also takes experience and understanding. Understanding that, as Johnson explained, if “x” is profitable, then doing ten times more of “x” is probably good, but doing 1,000 times more changes the equation altogether and brings infinitely more risk.

That thinking explains why Johnson declined, during the mortgage boom years, to use brokers to generate volume. He knew he would have no control over what they did. And so today his mortgage subsidiary not only is still around, but is having its best year ever.

So, watch out for those little guys. They’re not only competitive, they’re smart. â–