YOUR LONG-TERM PLANNING IS A WASTE OF TIME

First in a series: Scope it right, and do it for the right reasons
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The long-term planning season is nearly upon community banks.

Generally, the fall is when most community banks figure out what they are going to do with their life.

Part of this is tradition and part is because the long-term planning process should direct the budgeting process, which most community banks engage in in some fashion in the fall of each year.

You may have noticed I used the term "long-term planning."

Actually, in our consulting and law firms, we refer to long-term planning as "action planning." We generally avoid the use of the term "strategic planning" because most board members recoil at the thought of having to sit in a day or more of traditional "strategic planning" sessions.

Over the years, I have asked myself, "Why do the directors so dislike traditional strategic planning?" The conclusion, after many discussions, is that most of them feel that the process itself is "over processed" and the time spent is a "waste" of time.

I thought it might be helpful for the next series of blogs to deal with this entire issue of "your strategic planning is a waste of time if..." Over the next few weeks, I will provide you with 10 indicators that your strategic planning may be considered a waste of time if the board is engaging in certain activities.

Why do we do it, in the first place?

The goal of long-term planning is to figure out what to do with the bank's life and engage the directors at a 30,000 foot level to help make those decisions. That is strategic planning.

Operational and tactical planning is figuring out how to implement the strategies. That is management's job.

The general process is the board gets together and determines the strategic direction. Subsequent to that, management gets together and figures out how to operationally and tactically implement those strategies.

From a very high level at the board, strategic planning is simply the board's determination on how the human resources and financial resources of the bank should be allocated strategically. The time horizon for strategic planning over the last four years, understandably, had been fairly short.

For many community banks, the planning process was either dictated by the regulators in some type of an enforcement

action or the plan was simply to keep the doors open as long as possible.

Getting back to "normal" planning

Fortunately, the fittest have survived. Now, most community banks are coming back to a position where the board can contemplate allocating capital instead of simply "hoarding it." And so the strategic planning time horizon has again expanded to three years for most areas, e.g. general business plan, to five years for geographic expansion and the like.

The first step for the board in strategic planning is to determine the resources that can be allocated.

Human resources are pretty easy to determine. They walk in and out of the bank every day.

The financial resources are really a question of what is the minimum capital level the examiners expect to see when they walk in the bank (notice I did not mention regulatory minimums, Basel III, or anything else) and what is the board's comfort level if it is above that minimum.

For example, if your bank has 12% Tier 1 capital, is your board comfortable strategically allocating that capital if it causes a reduction in the Tier 1 ratio down to 9% (likely, the expectation of the examiners) or does the board have a comfort level that is higher than that?

If, for example, the board's position is that 10% Tier 1 capital is acceptable, then the bank still has 200 basis points of capital on whatever its asset size is that can be allocated strategically.

The discussion also needs to involve what capital can be obtained either through debt leverage, particularly if the consolidated holding company is under $500 million, or equity. Once that is determined, then the planning process can begin.

Key points to keep in mind moving forward

Future blogs will address issues that may indicate your strategic planning is a waste of time. A few parting words for now ...

- • Although I indicate the "planning process" can begin, my recommendation is that the board not focus on the "process" part.

Instead, the board should figure out what the issues are, address the substantive issues, make a decision, and provide for accountability and an action plan.

And then the board should move on.

- • Also, not to sing an old song, but your planning will, in fact, be for naught if the bank has a significant

compliance problem.

Your compliance officer needs to be on his or her A game.

A flood insurance problem will not derail a long-term plan, but certainly an unfair, deceptive, abusive or fair lending issue will. If you are involved in a significant compliance issue with the regulators and the long-term plan involves filing an application to do anything, the bank can basically forget it while it is in the penalty box for the compliance issues.

I anticipate the issues I will address in the next couple of blogs will provide community bank management with some guidance as to how long-term planning can occur without wasting the board's time.

About Jeff Gerrish

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Gerrish formerly served as Regional Counsel for the Memphis Regional Office of the FDIC, with responsibility for all legal matters, including cease-and-desist and other enforcement actions. Before coming to Memphis, Gerrish was with the FDIC Liquidation Division in Washington, D.C. where he had nationwide responsibility for litigation against directors of failed banks.

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