Will Your Community Bank Maximize Its Coronavirus Reputational Dividend?

by
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Ever since Lionel Barrymore created the iconic role of Mr. Potter, the mean curmudgeonly banker in the 1946 classic film, *It's A Wonderful Life*, bankers have endured a generally bad to terrible rap. While some of this ignominy was deserved, a lot of it was not.

Having worked with banks and bankers for the last 27 years, I have come to appreciate that bankers are like everyone else. There are smart ones and dumb ones, nice ones and mean ones, but the one overarching conclusion that I've reached is that bankers virtually always get put in a worse light than they deserve.

For several decades my firm has been developing commercial opportunities for community and regional banks by reaching out to businesses and making face-to-face appointments. We make about 10,000 such appointments each year and, in the course of that enterprise, have documented conversations with roughly 50,000 business owners and CFOs. When it comes to how they feel about their banking relationships, we hear the good, the bad and the ugly, and there's a lot more bad and ugly.

The financial crisis went a long way to sully the reputation of bankers in general. Egregious behavior on the part of a small but highly visible group of banks really did help create and deepen the crisis. Specifically, dealing in subprime mortgages, commercial mortgage-backed securities and derivatives contributed to the depth and length of the recession. While the roots of the "housing bubble" can be traced to the Clinton administration, there's no doubt that the actions of certain banks made a bad situation worse. The fact that the perpetrators were never brought to justice or punished only reinforced the perception that greed on the part of bankers was at the heart of the problem. As we all know, the overwhelming majority of community banks had nothing to do with these shameful acts, yet all banks were painted with the same unkind brush.

Then came Wells Fargo and its amazing ability to take egregious behavior to new heights. Between creating millions of phony accounts and foisting redundant insurance policies on thousands of auto borrowers, the public perception of banks sank even lower. The fact that the responsible executives walked away with bags of money only exacerbated that resentment.

Fast forward to today. In mid-March, when the country went into Coronavirus lockdown and the economy went into freefall, it became apparent that the government had to take drastic and immediate efforts to keep people afloat. The Payroll Protection Program (PPP) was created as a short-term lifeline for the millions of people who became instantly unemployed, many if not most by small businesses. PPP, flawed as it was, created an unprecedented challenge and burden for virtually every bank. Based on the stark differences between the way community and regional banks handled PPP applications and the way very large banks handled PPP applications, community and regional banks may have unwittingly received a reputational dividend that could last a generation. Not only did large banks come off as discriminatory and incompetent, but the inability for customers to have any meaningful communication with the bank regarding their applications is a story that echoed in the press on a daily basis. While the two very obvious economic benefits that the banking community will enjoy, modest fee income and, more importantly, sustaining distressed businesses that might ultimately prevent massive loan losses, I believe that it is this reputational dividend that will, in the long run, prove to be most valuable.

While we know that the next challenge will be assisting PPP recipients in organizing and accumulating their documentation for loan forgiveness, it's safe to say that there will not be the frantic frenzy associated with PPP applications. I believe that community banks do have incredible opportunity to double down on their reputational advantage. It is becoming very clear that the Coronavirus will not be an eight-week problem, so all businesses, including banks, need to be thinking about what they should be doing both immediately and over the longer term to sustain their businesses both financially and reputationally.

Community banks should develop a short-term tactical plan which might include the following elements, specifically addressing the small business and commercial segment:

1. Provide its PPP recipients with very specific guidance on allowable expenses, required documentation, hiring and firing requirements or restrictions, and other information specifically designed to help these firms prepare for and ultimately receive maximum loan forgiveness. Many small businesses are woefully unprepared for this process. Providing this information by distributing existing content (from the SBA and other private, public and governmental sources), providing webinars, online FAQs and knowledge bases, and other resources can really reinforce the notion that the bank is there for that customer and with that customer through the whole process.

2. Provide small and midsize business customers with general resources that could be of great value during the pandemic but may have nothing to do with PPP. This could be a golden opportunity to showcase your existing customers who are consultants, accountants, marketing firms or another discipline that could be of value to your business customers. These resources could be provided completely electronically and the providers would likely jump at the chance to do so.

3. Provide small and midsize business customers (as well as consumers) with valuable resources to help them cope with and work through the challenges of a world turned upside down. This could be anything from cooking to exercise to personal financial information. Again, this could be a very attractive opportunity for your existing customers to provide these resources.

4. Be looking beyond PPP to help those businesses that will still be facing challenges. One obvious solution is already in place in the form of SBA 7A and 504 loans as well as the emerging Main Street program. For community banks that have heretofore shied away from SBA lending, an expedient way to ramp-up is to partner with a firm that specializes in providing community banks with SBA back office and other support. Two examples are SBA Complete headquartered in El Segundo, CA and Innovative Financial Solutions in Drexel Hill, PA.

5. If he or she is up to the task, perhaps your CEO or another senior officer could host a virtual interactive session along the lines of a town hall or "fireside chat". Questions could be asked in advance or live through Zoom or another of the many existing platforms.

There are two enormously important aspects of all the aforementioned concepts: they would involve virtually no hard dollar costs and they could be delivered to prospects as well as existing customers. Thus, these retention strategies could double as customer acquisition strategies and portray your bank as an institution that reaches out and communicates, educates and welcomes new relationships.

Your long-term strategy, on the other hand, should be all about building and strengthening relationships to reinforce the notion that your businesses customer would be far better off with your bank than with the mega bank. This challenge can be met by encouraging your frontline sales team to really go out of their way to engage customers (and prospects) perhaps electronically now, and at some point, face-to-face. Many banks have established "Touch Guidelines" requiring minimum standards for reaching out to business banking and commercial customers based on size, value or other criteria.

One recurring complaint that we hear from business owners and CFOs is that they only hear from their bank when there is a problem. One way to make customers feel important is to reach out to them, especially in stressful times, with the message: "Just checking in, is there anything we can do to make life easier?" Today many banks claim that they build and value relationships. This goal is akin to the equally ubiquitous claim of being a "Trusted Advisor". In both situations, the key to success is building trust, which is always a result of deeds not words.

Right now your community bank is in a most enviable position. Thanks to how badly the big banks have bungled PPP, and how widely those stories have been chronicled, you have been bestowed a wonderful reputational gift. Whether you capitalize upon it or squander it will depend on how your organization and individual bankers take the message to the market. Based on what we are already picking up, the next two quarters will be rife with opportunities to have conversations with decision-makers. Eventually, most banks will figure this out so getting out ahead of the curve will be critically important. This will definitely be a time for leadership and, as media mogul Ted Turner said, "Lead, follow or get out of the way".

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