

## Speeches

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May 3, 2001

OTS-086 - Closing remarks by Ellen Seidman, Director, Office of Thrift Supervision, at the 2001 Thrift Industry Leadership Conference: Charting the Course of Competitive Community Banking, Atlanta, GA., April 24, 2001

### **Closing Remarks**

**Ellen Seidman**  
**Director, Office of Thrift Supervision**

Before the

**OTS 2001 Thrift Industry Leadership Conference:  
Charting the Course of Competitive Community Banking**

**April 24, 2001**  
**Atlanta, Georgia**

Thank you all for being here yesterday and today. I hope you enjoyed the conference--both the formal sessions and the informal networking--and got some good ideas to take home and explore. I also want to thank OTS staff who developed this conference and made it happen, particularly Louise Batdorf, Rich Riese, Sonja White, Darrel Dochow, and the entire steering committee, who came from all the regions and Washington, and from all disciplines. I would also like to thank the ACB and ABA for their support; our conference consultants, Strategic Management Concepts; and the Westin Hotel. We will keep the e-mail address [chartthecourse@ots.treas.gov](mailto:chartthecourse@ots.treas.gov) open for you to send us follow-up questions and requests for information, and we will also put conference information on our web site.

When we started, I said we wanted to accomplish three things:

- Encourage strategic thinking--looking and planning ahead with an awareness of your own expertise, resources, and appetite for risk;
- Encourage some out-of-the-box thinking about markets and opportunities; and
- Position OTS to work with you as you do that out-of-the-box thinking and implementing, all within the precepts of safe and sound operations.

I believe we laid a solid foundation for all three goals; now it's up to all of us to follow through. We at OTS will start with meetings this afternoon and tomorrow, to explore what we learned, to think about how best to push that down to the examiner corps, and to think about our usual business with a new lens. We hope you do the same.

What did we learn? It's been a very full two days; so let me quickly take you back to the beginning.

Mark Flannery opened by reviewing the changing financial landscape, and particularly the dispersion of risk taking, with a consequent reduction in return, a point reiterated by Tom Parliament

today. Mark also talked about some of the failures of diversified consolidation. He concluded that community bankers' local presence and personal advice are major competitive advantages, and he urged thrifts to "think niche."

Stephen Happel entertained as well as informed us with his discussion of age waves, and cited four trends:

- Increasing diversity of household arrangements;
- Aging of the population;
- Increasing impact of minorities, especially Hispanics; and
- Large amounts of money that are increasingly being managed by older women.

Steve reassured us that spending peaks at age 47, and showed how this fact, combined with on-coming age cohorts, should make the next ten to fifteen years very good ones economically.

From Kay Lemon, we learned the importance of customer equity-  
-of thinking of customers as lifetime assets to be leveraged  
strategically. She discussed the three components of customer equity:

value equity or the objective characteristics of a product or service; brand equity, the subjective; and relationship equity or stickiness. She discussed how to determine which was most important to your customers, the drivers that would work best, how you are doing, and how you could most cost-effectively spend your marketing dollars. She offered to help a group of thrifts work through the model.

Mike McGuire and Lynn Reilly from Social Compact discussed the potential of many inner-city markets. Focusing on measures of real income and wealth, including the "cash only" economy, and "drilling down" into the community, they demonstrated there is a level of population, wealth and disposable income far beyond what the census and other conventional measures show--and that much of the community is unbanked. Looking at a stable black community, they showed how medians are deceptive measures; there are good solid banking prospects--people with \$70,000 incomes and \$100,000 houses--even in neighborhoods that the medians say are rundown and declining.

At lunch on Monday, John Bryant called us to action, to do well by doing good, to work as partners--business, government, community--to bring education, confidence and hope to communities and individuals who have too long been left behind. I know some of you have already followed up with John to get ideas on making these kinds of partnerships work better in your communities.

Monday afternoon, we broke into smaller sessions to learn about four potential new markets: small business; the underserved, especially immigrants; people of modest means; and the aging.

In the jam-packed small business sessions, Scott Kisting and Ed Morsman discussed how to establish and maintain a good small business lending operation. They said there was plenty of business for bankers who could offer solutions--not just products--to businesses in need of loans in the \$200,000 to \$5 million range. They talked about building a real pipeline; making sales, credit and operations work together continuously; setting policies and parameters and sticking to them; rewarding behaviors you want (in particular long-term

profitability, not just loan volume) and can measure continuously (not just at the end of a year or quarter); and avoiding concentrations.

Elvin Wyley, David Listokin and Josh Diaz discussed serving underserved communities and immigrants. They showed that there is increasing profitability in serving these markets, but that it takes a thorough understanding of the markets and of the cultures, and the development of effective partnerships. And, as Josh emphasized, it requires listening as well as talking, and integrating the culture into your way of doing business, not just transliterating or translating.

Marshall Dennis, David Reiling and Ralph Haberfeld discussed serving people of modest incomes, and emphasized that there's much profitable business to be done in that segment. They urged thrifts to experiment with what customers need; to understand your customers and grow with them, selling them more products and services as the customers become more integrated into the financial mainstream; and to understand the profitability of your products. They said this is a market segment with intense loyalty if treated fairly and with respect.

However, they also urged caution, particularly in the area of lending to actual and potential slumlords.

Karen Stein, Bill Farris, Frank Quinn and Lisa Howard spoke about opportunities in serving the elderly market. Building on Steve Happel's observations about the aging of the population and the changing role of older women, they emphasized the needs of this population in terms of advice and protection, their willingness to pay for quality services, and their intense loyalty. Frank also discussed the particular opportunities available in trust services.

Tuesday morning we tried to put the new opportunities the panelists discussed on Monday into a more explicit risk management and strategic planning context. We opened with a panel consisting of Jack Ryan, Mark Mason and Ed Krei, who focused on making certain that as you create and implement your strategy, you keep risk management firmly in mind.

Jack emphasized the need to temper thinking big with understanding your own capacity, in terms of both people and systems. Jack--as Ed and Mark--also emphasized the critical need to watch credit, and to make certain you're compensating employees for what you really want to accomplish--long-term profitability--not loan volume. Mark told us the sad but instructive tale of his bank. He emphasized the critical role of having compliance "right" from the start, particularly in consumer finance. He also talked about the seven deadly sins of management and the need to manage, with excruciating attention to detail, relationships with third parties. Mark emphasized that accountability for your products' underwriting and compliance is simply non-delegable. Ed focused on the need for strategy to be action-oriented; to focus on high impact issues; to make certain you know who your markets are and what bets you're taking on them; and to make certain you're being adequately compensated for those bets.

We then split into two groups. One heard Frank Nothaft of Freddie Mac, who told us that while the housing and mortgage markets look strong for 2001 and beyond, borrowers will be very different than in the past--more minorities, more singles, more childless households. He also noted that delinquencies in the prime market seem to have



passed the "sweet spot" and are now increasing, and that delinquencies in the FHA/VA and subprime markets are high and getting higher. He concluded by emphasizing--as earlier speakers had--the need to actively manage credit risk, including through stress testing.

Gene Ozgar discussed technology risk, stating that today:

- Technology is not the "back office," but rather a strategic asset that must be part of, and sometimes even lead, the strategic plan;
- Banks must make certain they have the technology to carry out the strategic plan, and must be careful with third-party providers; and
- It's critical to ask those closest to the customer for their input.

Ray Christman and Stella Lang laid out the strategic planning process, as implemented at the Federal Home Loan Bank of Atlanta. They emphasized that strategic planning is a continuous and sometimes difficult process. It must be CEO-led and driven and must focus on getting the mission and vision right, although sometimes it may be best

to work with a draft mission and vision statement and only come to a final one after the process is completed. The Federal Home Loan Bank of Atlanta chose to involve all staff, in a "bottom-up" approach to strategic planning. Stella laid out the four critical steps: plan to plan, develop the plan, implement the plan, and reward those who contribute to success.

At lunch Tuesday, it was time to ask OTS questions. A panel consisting of the five Regional Directors, and the heads of Supervision and Compliance Policy and Operations from Washington, took questions on topics that included wholesale versus retail funding, including the impact on franchise value; how we look at interest rate risk in an environment in which good ARM loans are hard to come by; predatory lending; improving examination efficiency; and Internet banking, both in terms of profitability and CRA.

After lunch on Tuesday, we convened for our final session. Tom Parliament opened by asserting that whatever else one cared to argue about, the goal of every thrift should be profit-oriented, including aiming for an ROE of 12 to 15 percent. He emphasized that banking was a business of taking risk, and that for reasons already discussed by, among others, Mark Flannery, the rewards for taking a given amount of risk are getting smaller and smaller. Therefore, bankers need to maximize the return of their major asset--the point of sale relationship with customers, particularly good customers. He said it was time for thrifts to think like all other businesses, emphasizing cash flow not collateral, and underwriting and reserving on the basis of borrower risk, not class of collateral.

Tom was followed by a panel of senior executives from four totally different types of institutions, three currently OTS-regulated, and one that used to be. John Fiore of Synergy Federal Savings Bank, a recently converted credit union, discussed their strategy, which has been built over many years, of serving their customers wherever they are with extremely fast decisions, particularly on auto loans. He emphasized lending on cash flow and the customer, not collateral; using strategic alliances wisely; building on in-house technology advantages; and never delegating underwriting decisions.

Sau-Wing Lam of United Commercial Bank, the largest Chinese bank in the United States, described the bank's migration from real estate development through mortgage lending to commercial lending, including a switch from a thrift to a commercial bank charter that accompanied a forced public offering when an Asian parent needed to sell the institution. He emphasized that thinking strategically at all critical junctures, as various business plans fell prey to economic hard times in California but deposits kept growing, enabled them to succeed and prosper, including an increasing stock price over the last two years. He said that, except for the need to do the public offering, he would not have switched charters even though the bank was moving more and more into commercial lending, as he felt the thrift charter had sufficient flexibility.

Bill Johnson of Pee Dee Federal Savings Bank, a small mutual institution in Marion, South Carolina, talked about his institution's intense devotion to its community. He discussed the institution's decision, following the community's loss of three large employers, that economic development and job creation were key to the community's survival. He recounted his institution's decision to acquire two critically important non-income-producing assets: an economic development center leased to the county for \$1 a year and a speculative industrial building, which the State of South Carolina told him was key to attracting industry, and his work with OTS to get approval for both. He recounted that success may be near, as a major employer is about to buy the spec building. Bill also discussed his institution's special programs to welcome new teachers to the community and to help them with all their needs.

Finally, Richard Neu of Charter One, a \$34 billion institution based in Cleveland, discussed his institution's successful strategy of cross-selling (particularly working to make certain that profitable HELOCs are sold with each home mortgage), and paying close attention to maintaining tight cost controls. He said that, even at Charter One's size, there was no reason to be all things to all people, but that it was critical to make certain that business partners are giving back--he cited as an example deposit accounts brought in through partners selling annuities.

The concluding panel emphasizes the extreme diversity within the thrift industry, and the fact that OTS is willing to support a wide variety of business strategies, as long as they are well planned and well executed, with proper management, controls, reserving and capital. To summarize the messages of the entire conference:

- Long-term profitability requires planning;
- Think outside the box--there are profitable markets out there that are untapped and that can be served in a safe and sound manner;
- Develop a strategy that gets you where you want to be, consistent with your financial, human and operational capacity and tolerance for risk;
- Communicate your strategy effectively, to everyone within your organization, to your customers, to your funding sources, and to your regulators; and
- OTS encourages well-conceived, well planned and well executed strategic business initiatives, even those that are "outside-the-box."