'Stayin' Alive' - Collaborative Opportunities for Community Banks Redux

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With continued apologies to the BeeGees, the goal of "Stayin' Alive" in the current environment for some community banks has become a triage involving a challenging search for expense reductions and a likewise challenging search for ways to enhance income (both difficult at best in the current economic environment) versus finding a strategic partner. For institutions seeking to remain independent with little opportunity to increase income in a meaningful way in the short term, expense reductions are one of the few factors that they can conceivably control and doing so, in a thoughtful and strategic manner, may enable them to achieve the goal of independence for the foreseeable future.

It has been several years since the Office of the Comptroller of the Currency (OCC) offered up a helpful white paper titled "An Opportunity for Community Banks; Working Together Collaboratively." If anything, the observations contained in the OCC publication, encouraging community banks to examine opportunities to "....pool or share resources to reduce costs and leverage specialized expertise," are more relevant than ever if community banks are to survive and prosper.

Unfortunately, despite agency encouragement at all levels it seems that relatively few institutions may be taking advantage of the many and varied opportunities for collaboration and the expense reductions that can follow. Each of the options take time to consider and evaluate, and then to structure and get up and running. And as we all know, Noah didn't wait for it to start raining before building his ark, so timing can be critical.

It is helpful to revisit opportunities to consider where institutions may benefit from various types of collaborative pooled resources to reduce expenses. While some of the structures and opportunities require "outside the box" thinking and planning, others are more readily available with relatively little effort and may have a profound and immediate beneficial impact on operating expenses.

The types of expenses that can be reduced through outsourcing and/or joint venture expense sharing arrangements range from traditional services to more nuanced services such as employee sharing arrangements. As with everything, the "devil is in the details" and there is no "one size fits all" for the types and structures of expense sharing collaborative arrangements. However, conceptually such arrangements can provide the same expense reduction benefits to participants that are gained through strategic combinations and multibank holding company structures. The ultimate targets are enhanced profitability and viability coupled with assured access to required expertise, and engaging in certain collaborative initiatives to reach those goals is not as complex or ominous as it may first appear.

Vendors and "Outsourcing"

While community banks traditionally outsource a diverse variety of services to third-party vendors, from audits to platform processing, institutions banding together as a group to drive vendor cost reductions, and/or use of existing services from trade associations and others, can be readily accomplished. Due diligence and ongoing vendor oversight are critical from a risk management perspective for each institution, and many of those types of vendor opportunities are currently available through trade association offerings and recommended vendors or can be structured by independent institutions to capitalize on collaborative negotiation and buying power.

Banding together to drive vendor pricing advantages and enhanced buying power has been the key to survival of the local hardware store and other effective and long-standing "co-op" arrangements, and have enabled participants to remain viable and independent in the face of "big box" retail competition. Certainly the same concept of purchasing consortiums, through industry trade associations and through other forms of institution consortiums, have the ongoing potential to drive negotiation of advantageous vendor pricing and vendor control in the banking industry.

"Captive" Vendors

Collaborative ventures may also take the form of jointly-owned "captive" vendor entities designed to provide services to their investor/owners and others. Those "captive" vendors can provide services to the industry while at the same time hopefully providing a profit to owners. A plethora of potential structures for such relationships exist, and each is dependent on the short- and long-term strategic goals of the investors and users. It is an opportunity for investor/users to not only obtain expense reductions but also to earn a return on investment for a service that is otherwise pure expense.

Jointly-owned "captive" vendors could include those providing not only traditional vendor outsourced services such as processing, but also services traditionally performed by bank personnel including credit analysis, workouts, compliance, and other non-customer facing "backroom" services. Each of the regulatory agencies recognizes the permissibility of investing in affiliates to provide services to owners and third parties, whether through a bank, thrift or holding company structure.

Shared Employees

While perhaps somewhat more complex from a legal perspective, certain types of employee sharing arrangements can enable institutions to share employees to perform needed services. While an institution may, for instance, require employee support in the area of compliance, that position for some institutions may not warrant a full-time employee. In those instances, the employee could provide compliance assistance to another institution or institutions so that the employee expense is shared among the institutions. Employment law, privacy, employee benefits and related issues exist, but can be overcome with proper structuring and have in fact been done in the past.

Shared employees provide an opportunity to share the expenses associated with FTE engagements while providing important common support services to groups of two or more institutions.