

Payroll Tribune

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Bank Talk

The financial system continues to be in the news. For the payroll industry, the strength of the banking industry is a key to the industry's well being. In the Payroll Tribune, we talked about the collapse of the credit markets in 2007 (March and September 2007 issues are on our website www.henshawvierra.com). Many banks had to be rescued when the first wave of the recession hit in 2008 to 2009. A couple hundred didn't make it, including some formerly thought to be "too big to fail". Now the second wave is here and hundreds of regional and community banks are in trouble. Many will be closed or consolidated, and Wall Street can't wait!

If this happens to your bank, it could effect your ACH channel and lines of credit. You need to think about your bank before that happens. Even better would be to review your bank to see if it would even be at risk to such a closure or consolidation.

I have been involved with banks much of my life; much of it in senior management, in treasury (which buys, sells, creates asset backed securities), asset/liability management, and in analysis and performance modeling. I could talk about bank earnings; credit quality; capital; operating ratios like return on assets, return on equity, tier one capital, non-performing assets; loan quality like delinquencies, loans on non-accrual, charge-offs, and OREO. If I did, I would scare you or bore you to death.

Instead, I thought I would give you a quick way to check on your bank and to keep track of it over time.

I use www.bankrate.com for a quick review. You might try it out too. They rate banks from 1 to 5 (best) stars. They look at bank earnings, bank asset quality, bank capital, and bank liquidity. In short: is the bank making money, are its assets sound, does it have capital and reserves to weather the next round of recession, and can it raise money quickly by selling assets and finding deposits.

As examples, I looked at two regional/community banks. The first bank was a bank with a threes star rating, which in this market, is OK. They know their bank examiners more intimately than they might like, but everyone is civil. This 3 Star bank had an Earnings ranking of 4 (it was earning money). It had an Asset Quality ranking of 2 (it had lots of under-performing and non-performing loans, but it had a strong reserve to deal with these bad assets). It had a Capital ranking of 5 (it had equity to total assets of over 10%, and regulatory capital of over 13.5%. It could protect its shareholders from a pretty big storm). And, it had a Liquidity ranking of 3 (which means that it could fund itself under most conditions). If you are banking with this bank, you can worry about something else. Watch them, but they will not be your biggest business problem over the rest of 2010.

Bank Talk (continued)

If your bank looks like my next example, you need to get serious about how much you have on deposit with them, and whether you can get a backup for your ACH activities. This is a bank that bankrate.com ranked 1 (lowest rank) and the FDIC closed in mid-April. They had an earnings rank of 1 (they were losing money and could not earn their way out of trouble). They had an Asset Quality rank of 1 (a majority of their loans and investments were in some form of default and they had only a small reserve to deal with their problems). Their Capital rank was 1 (they had capital equal to less than 7% of Total Assets and had no real reserves. They could no longer carry their non-performing assets). And, their Liquidity ranking was 1 (because they were technically bankrupt, depositors were concerned with putting deposits with them). The FDIC has over 700 banks on their “troubled bank” list and maybe 150 that look generally like this one that they are actively working on. More banks will close before year-end.

These rankings and ratios do not mean that a bank will fail. If your bank fails, it does not mean that you will not have access to deposits or to ACH services. The second wave is coming. It is not a surprise. We encourage you to plan for it so that you will not be “at sea” after the waves hit the beach.

Business Service Companies Are Valuable Again

One of the main jobs that we do for our clients is to help put them in a position to get the best price for their company. We believe that value comes from great employees providing a competitive service at a fair price to valued customers, not just from the discounted present value for a customer list after a conversion process the current owner has no control over. We believe that discounts can be reduced or eliminated through strong operating controls and audits, a track record of predictable outcomes, and good preparation prior to looking at a proposed transaction.

Payroll services, HR reporting, benefits administration, and retirement plan administration are repetitive cash paying businesses, which bring tangible benefits to customers and their employees alike.

It appears that investors are coming back into the market for various reasons. Some are looking to buy growth, some want to fill in markets, others want well run cash flowing businesses in their portfolios, some are looking for the relationships that payroll brings with key data to help sell other financial services. Whatever the reason, we are seeing more and different buyers in the market.

Many buyers are sophisticated. They have done multiple deals. They have teams of negotiators, lawyers, and accountants to help get deals done.

We help level the playing field for our clients. We help get the owners into a position to have buyers doing due diligence on their Company. We help clients understand deal terms, particularly the representations and warranties buyers like to lay on sellers. Deals are hard to do. We like to even up the sides, and get transactions closed.

Buyers are coming back. If you are thinking about your life after payroll or about growth in the future, call us. We are on your side and have been for over 15 years.

HENSHAW / VIERRA MANAGEMENT COUNSEL LLC

We know the payroll business as owners, managers, and consultants. We are on your side in thinking about the future; solving operating, financial, and planning problems; or dealing with potential buyers.

Let our experience in payroll and in banking help you plan for operating risk review, building financial controls and review, treasury management, and reviewing your strategies for your future.

Call us in confidence at 510-749-3225. E-mail us at guy@henshawvierra.com. Visit our website at www.henshawvierra.com