

Part I: Norman Bobins on Trends in the Banking Industry



Norman R. Bobins, Chairman, President and Chief Executive Officer of the LaSalle Bank

by Dr. Margot B. Weinstein

Norman R. Bobins, Chairman, President and Chief Executive Officer of the LaSalle Bank, and CEO of ABN AMRO North America Inc., the parent of LaSalle, spoke at the Gerald Fogelson Forum on Real Estate held at Roosevelt University on May 9, 2002 about challenges and trends in banking and their impact on the real estate business in Chicago and the Midwest. Bobins has been a prominent leader in the banking industry for 35 years, and LaSalle Bank is one of the foremost banks providing services to the real estate industry. Banking trends and decisions impact everyone. Understanding where the field is heading and why, allows all of us to make informed decisions in both our professional and personal lives. This is the first article of a two part series in which Bobins discusses 35 years of trends in the banking industry. In Part II, featured in next month's Chicago REALTOR®, Bobins will talk about banking and the real estate industry in Chicago.

Deregulation and Merger Mania

Bobins began, "Since I entered banking in 1967, the number of commercial banks has declined drastically. In 1967 there were 14,250 banks in the United States, and in 2000, there were 8,000. Of the ten largest banks in U.S. in 1967, only two have survived. All the others have merged in one way or another."

Bobins says, "One word describes what led to the massive consolidation of banks in the industry: DEREGULATION. The passage of the Gramm-Leach-Bliley Act in 1999 by

Congress was the culmination of a series of laws that took place over a twenty-year period that has basically changed the face of banking. It led to merger mania in the banking industry, because deregulation leveled the playing field."

- Interest rates on deposit were no longer capped.
- Less distinction between banks and thrifts.
- Branch banking approved across state lines paved way for mega-mergers in the 90's.
- Banks allowed to acquire securities firms.

"As a result of consolidation, three tiers of banks have emerged: the first tier is made-up of the \$100 billion dollar and over banks that are the eight largest banks in the U.S. today. The second tier includes banks from \$10 to \$100 billion, where I believe we are going to see a continuation of a consolidation of those banks. The third tier contains 6500 Community Banks under \$10 billion; many of them are located in a geographic area and their span is over that community and the surrounding areas around them. These banks are not about to become extinct, because they provide service and convenience to customers that many of the largest banks are unable to provide. The real estate industry is one of the major beneficiaries of this group of banks, because many of them make their living working with people in the real estate industry," says Bobins.

The Banking Industry focuses on three objectives:

Digesting the Quality of Mergers

Bobins continues, "Bankers are digesting some of problems caused by the mergers of the past ten years. From 1960 to 1980, there were 190 mergers, and from 1980 to 1995, there were 423 mergers. Due to inexperience, too much hype by the analysts community and naiveté, many of the bank mergers have not gone as planned, and the stocks of those companies have not been very productive. Today, mergers are being reviewed and reformatted, and this process will take between one to

two years to be completed."

Dealing with the Recession

The banking industry is doing three things to deal with the effects of the first recession in the industry in the last ten years:

Bobins explains, "First, many banks are getting "Back to the Basics" in response to problems caused by the recession. This means: better loan structures, fewer bank-financed leveraged buyouts, less complexity and higher pricing."

"Second, bankers are improving their focus on risk management due to: identification of portfolio concentrations, tightening of policies and procedures, and refocus on target markets."

"Last, bankers need to KNOW their customers. This is the most important concept in commercial banking. Independent analysis and strong relationships are critical to understanding one's customers. Bankers and customers need to know each other, because that confidence and knowledge allows for a two-way dialog in which both parties can build strong relations and work things out."

Maximizing the use of Technology and e-Commerce

Banks have become very technologically focused to fulfill two basic needs: Bobins says, "First, We need to drive down our costs of production to be low cost providers of a whole series of different functions that we perform, whether it is processing checks or making home mortgages, or sending out wire transfers."

"Secondly, many banks are becoming focused on the e-commerce side. We want to provide service to our customers over the Internet and over the airways. The banking industry thought for a while that all bank branches would become extinct like dinosaurs, because everything could be done through computers, modems, etc. We have learned that technology and computers are very useful channels of communication with our customers, but it is not the only channel they want to use. Our

industry has learned that we need a combination of technology and bricks and mortar, to be the successful players in the future."

Where is the banking industry headed?

Bobins says, "First, I believe that expansion and consolidation will continue. What has happened in Europe is a predictor of the future in the U.S. France, Germany and Canada, each have four major banks."

Second, banks will be much more focused on retention of existing customers. "Yes, they want new customers, but it is expensive to get a new customer, and when you realize that you must do a better job to keep the customer you have now."

Lastly, banks will charge more fees to achieve better returns on capital. "Banks have learned that they can not make enough money from a loan transaction to provide sufficient working capital and give the shareholder the desired return. Therefore, they are searching for either ancillary services to sell to their customers or some type of fees that booster their yield."

Bobins concludes, "Today, the banking industry is healthier than it has ever been, and it is in everyone's best interest to have a healthy banking system, especially the real estate industry."

Editor's Note: Mr. Bobins is former Chairman of the Board of the Chicagoland Chamber of Commerce and was appointed by Mayor Daley to be Commissioner of the Public Building Commission of Chicago. He serves as a member of the Board of Education for the City of Chicago and as a member of the Board of Trustees of WTTW Communications, Inc., the Field Museum and the Illinois Business Roundtable. He is also a trustee of the University of Chicago Hospitals. In addition, he serves on the Council on the Graduate School of Business at the University of Chicago and is a member of the Kellogg Graduate School (Northwestern University) of Management Advisory Board.

His corporate involvement includes the Board of Trustees of Center Point Properties Trust, the Board of Directors of Braun Consulting, and directorships at RREEF America REIT II Inc., and Transco, Inc.]