

The Search For Good Help Gets Costlier

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Accelerating competition, which is already crushing loan and deposit pricing, is also beginning to push the banking industry's compensation costs higher.

The industry is piling loans on balance sheets and paying up for deposits to fund them as it combats a flat yield curve with volume. The competition has amplified margin problems and raised questions about whether banks are adhering to appropriate underwriting standards in the quest for volume, but the more immediate consequence of fattening balance sheets is paying employees to make loans and dig up deposits.

The incremental expense of adding employees is not the only factor in rising wage and benefit costs. Just as important is the near-frenzy for talent that is driving up salaries across the board.

"There is more competition for good people and more competition for clients," said Alan Johnson, a compensation consultant specializing in the financial services industry. "No matter how big or small you are, you need to pay to get the people you need."

Salary and benefit expenses at banks and thrifts rose 11% last year, to \$140 billion, according to regulatory data gathered by SNL Financial LC in Charlottesville, Va. The increase showed no sign of abating in the first quarter, when salaries rose at an annual rate of 11%.

Bankers and consultants said recruiting efforts, which in 2004 and 2005 were centered on compliance and audit staff, now center on the employees most directly responsible for getting and keeping commercial borrowers: lending officers and relationship managers.

The 2005 commercial lending and business banking survey by Marsh & McLennan Cos.' Mercer Human Resource Consulting found that the median salary for experienced commercial loan officers and relationship managers at the 67 firms that responded to the survey rose 7% from 2004, to \$110,000. Salaries for other commercial and industrial lending positions, including business banking relationship managers and credit analysts, also increased.

"There is a special category of expertise inside commercial banking where the war for talent is especially intense, where leadership is required to build and manage high-performing teams responsible for gaining market share, developing volume with quality and profitability," said Rod Taylor, a partner at the Atlanta consulting and recruiting firm Taylor & Co. "In this market there are never enough high-performing leaders who know how to win and retain customer relationships."

Connie McCann, the managing director of the North American financial services practice for the global search firm Spencer Stuart, called the current situation a "classic imbalance" that has had a predictable consequence.

"There is tremendous demand for good talent, and it is outstripping the supply," she said. "One of the levers that you have in recruitment is compensation."

There are a number of factors behind the imbalance, but the most compelling may be a generational vacuum that emerged decades ago

and is manifesting itself now. With the banking industry in crisis mode throughout most of the 1980s, it failed to land the talent it had historically attracted. Bankruptcies and receiverships were pushing people out of banking rather than pulling them in.

As a result, "there wasn't much talent coming into the pipeline through the '80s," Mr. Taylor said. In addition, "those banks that were hiring talented young people couldn't give them the kind of credit training that they might have in years gone by, because they were so preoccupied with cost-cutting to survive."

That left a substantial hole in a crucial skill set, and in a crucial demographic range. The number of talented, trained lenders between the ages of 30 and 45 -- a period of prime production -- has been pinched, and a widening field of corporate lenders, including nonbank competitors, is after them.

"The banks were training grounds for everyone - they provided the bedrock credit skills for the economy, and they don't supply them anymore," Mr. Johnson said. "It's harder to find people with credit skills than it was in the past."

Mr. Taylor said the technology boom of the late 1990s further thinned the already weak ranks of lending officers. "There was a scattering of talent as the younger generation left banking for higher-paying jobs elsewhere."

Now, as consumer lending stagnates, the dearth of commercial lending officers is particularly acute, and furious branching in markets with attractive demographics has stoked the fight for talent.

George Jones, the president and chief executive officer of Texas Capital Bancshares Inc. in Dallas, said the competition for lenders is intense in the markets his company has targeted.

The \$3.2 billion-asset company is concentrated in Dallas, Fort Worth, Houston, Austin, and San Antonio -- the state's five growth markets.

With the banks already in the market looking to expand, and out-of-market players seeking territory for growth, "the cost of poker is definitely going up," Mr. Jones said. "These companies typically don't send someone from California or Birmingham to the Texas market. They want to hire from within the local market, and they are definitely beginning to pay up for who they believe are good people."

As a result, base salaries are up, as are up-front and guaranteed bonuses and, in some cases, equity compensation.

Though the competition for lending talent may now overshadow the booming compliance and audit functions, the consequences of the regulatory crush from the Sarbanes-Oxley Act and the Bank Secrecy Act remain.

"You won't talk to a banker today that would tell you they are not increasing their staff as it relates to the Bank Secrecy Act and general compliance," Mr. Jones said. The costs have "probably peaked at most of the banks, but we'll be living with those costs for some period of time."

Ms. McCann said compliance searches have emerged as "an important area" for Spencer Stuart. "They weren't five years ago."

Recognizing the threat to profitability that the competitive environment poses, bankers are thinking carefully about the best strategies for recruiting and keeping the lenders they desire. Incentives based on loan growth alone may become archaic.

Texas Capital uses a compensation structure that goes beyond industry standards and encourages lenders to view their job "as a

business that they can create and prosper from -- assuming they produce significant income for our company," Mr. Jones said.

"It is a much more entrepreneurial atmosphere," he said. "We pay a cash incentive yearly that is not only based on loan production, but how much income they produce for the company, not just loan growth. ... We also compensate them for retaining, growing, and servicing their existing customers."

Getting good talent is so crucial that the company views recruiting as a line of business, he said. Rather than relying on search firms or its internal human resources department, his colleagues all assume the responsibility of bringing on experienced lenders -- and are compensated for recruiting.

"My chief lending officer four out of the five mornings of the week has breakfast with potential recruits," Mr. Jones said.

Bankers and recruiters said the current competition, like most aspects of banking, is cyclical and will pass before long. **Mr. Taylor said many regional banks have recommitted to training lenders, and banking is again an attractive field for young professionals.**

The "relationship manager crisis" now in play will abate in the next three to five years, he said.

But the consequences of the generational vacuum will still be felt.

"The shortage of talent that showed up at the lender level" is progressing to a "shortage of talent in the age group that should be ascending into management positions now," he said. "So the fight for talent continues."