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UMB Turns 100, But Fees Keep It Spry

By Brian Browdie

UMB Financial knows something about building a business for the long haul.

It started in 1913 as a storefront bank in Kansas City, Mo., and has evolved into a diversified banking and financial services firm with assets of \$15.7 billion.

UMB, which operates 121 branches in seven states, weathered the Great Depression with its capital intact and the Great Recession without accepting funds from the Troubled Asset Relief Program. It recently logged its 12th consecutive quarter of lending growth while keeping nonperforming loans well below its Midwestern peers.

Still, conservative credit standards can pressure earnings. Though UMB's net interest income was essentially unchanged in the first quarter from a year earlier, the net interest margin narrowed 24 basis points year over year, to 2.51%.

"They've been able to get some pretty good loan growth but their loan yields continue to slip," says Matt Olney, an analyst at the investment bank Stephens Inc. "All banks are facing some pressure on the loan yield side, but their pressure has been more than most."

UMB offsets the opportunity cost of tight lending standards with income from businesses that generate significant fees. Noninterest income made up 60.4% of UMB's revenue in the first quarter.

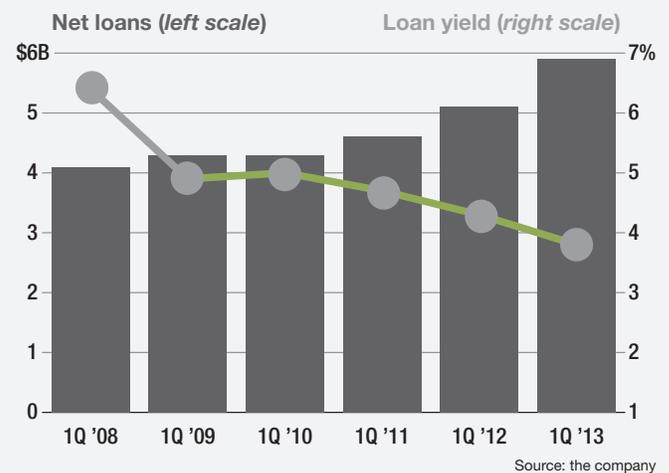
Those businesses — including UMB's Scout mutual funds unit, a credit card business and a subsidiary that performs accounting and other back-office services on behalf of mutual funds — are vital in today's economy, says Chairman and CEO Mariner Kemper, 40, the fourth generation of his family to head the company, which was founded by his great-grandfather. Kemper and Michael Hagedorn, the chief financial officer, recently talked with American Banker about UMB's past, present and future.

How does UMB's heritage inform how you approach the business?

MARINER KEMPER: The most important thing that our heritage and the family history brings to UMB is a sense of continuity of approach. So as you think about going through different cycles over time, our associates, shareholders and customers can take comfort in knowing that our approach, our values system and our principles transcend all that.

Modern Problem at Historic Bank

UMB, which turned 100 years old this year, has increased loans but seen yields tumble. Fee-based businesses are part of the answer, CEO Mariner Kemper says.



How does UMB's diversified business contribute to the company's growth?

KEMPER: The diversity that we have contributed over the years ... allows us to flatten out the spikes in values that might come in our earnings stream related to otherwise being more dependent on net interest income. It allows us to earn through up cycles and down cycles in the economy.

MICHAEL HAGEDORN: Having the sources of revenue that are not net interest margin-dependent creates a certain reliability to the earnings stream. Because by definition, if you're strictly a net interest margin shop, your next dollar of revenue has to come from the next loan, which may or may not be as good credit quality as the loans you did early in the cycle. We don't have to deal with that. UMB wants to be able to make every good-quality loan that we can possibly make, but we don't have the pressure on revenue to do that because we can offset it with our fee businesses.

KEMPER: It protects us from feeling the pressure to reach.

How do you maintain credit quality, while continuing to expand your loan portfolio?

KEMPER: The answer is back to the continuity. Our entire credit team has an average tenure of 20-plus years with our company. Credit actually rolls [up] to me directly. I think that's somewhat unusual in banks of our size. I personally review every loan over a million dollars. We all grew up as commercial lenders and we take great pride in our credit quality and the way we approach credit. You won't find UMB to be chasing a trend. So using subprime as an example, when it was hot, we weren't there.

HAGEDORN: It's taken the company literally its legacy to be really good at [commercial and industrial] lending. Not to say that we don't hire people from outside the company, but generally, our commercial lenders come right out of college and are internally trained and have very long tenures with the company.

What are you seeing in the market in terms of competition for loans and pricing?

KEMPER: It's highly competitive and continues to be so — I think really led by easy-money policies out of Washington. The longer we stay in this persistent low interest rate environment, the bigger the problem becomes for banks, the industry, to put their deposits to work, get any kind of return. So as you think about your alternatives, it makes it easier to continue to drive down pricing on the lending side because you really don't have any other options. Terms, even, seem to be loosening, which doesn't feel good, doesn't look good. We're nervous at the industry level, at the economic activity level, that we might be staring at another bubble at some point.

What type of capital requirements would you like to see for Main Street banks?

HAGEDORN: Under the proposed Basel requirements, there's a strong and growing belief that we should include unrealized gains and losses in our capital calculations. And we've been on record as saying we think that's bad, not just for UMB but for the industry because it allows a level of volatility to enter into those calculations that quite honestly banks like us could hold to maturity. Just because interest rates have changed does not mean that the credit quality of those instruments has changed at all, it's just the interest rate environment. ... Generally we would be in favor of higher capital levels for more risky activities and lower capital levels for less-risky activities.

UMB has done roughly 23 deals in the last decade. Do you anticipate acquiring banks or being acquired?

KEMPER: Most of those acquisitions were not bank acquisitions. Most of them were related to our fee-based businesses. We've done most of the strategic acquisitions we need to do to close gaps and make sure that our business is set for the future. We remain opportunistic ... but again, it's more likely that we would see fee-based type of acquisition opportunities than bank opportunities right now, just because the banks that would require a premium to purchase, which would be the kind of bank we would want to buy, are all waiting for better times, better returns for the sale of their bank.

You've talked about how you're working to improve the retail banking experience while taking out costs. How's that going?

KEMPER: It's going well. I think there's a lot of work to be done, and policy and regulation continues to drive us to do more. ... We're having success by using technology to enhance the customer experience, we've changed the way our branches look, we're trying to move, as the whole industry is, from a transaction model at the branch level to an advisory model where we're getting paid for what we do, and being able to better the life of our customers by providing them advice and talking about the cycles of life, saving, what are the different products that we can offer through the cycle of life. ... We've driven the cost of our retail business model down and we are evolving to an advisory model.

What investments do you plan in technology?

HAGEDORN: I think of technology in two different parts. One is the proprietary technology that we build that you cannot buy right out of the box. A good example of that is our health care business, which is essentially built on a platform that we developed ourselves. We were first to market, and that gave us an advantage and we continue to invest in that because it's not something you can buy. Our institutional cash management business is another place where we're making large investments as well. That tends to be proprietary. Pretty much everything else is, as we're moving forward and investing in technology, is more towards integrated solutions. And you see a lot of the software companies buying each other as a result of this, too. They realize that ... banks like UMB and probably banks all across the United States, need to find ways to have their systems talk better to one another. ... We're always investing. I don't think that's going to be something that's going to stop.

How do you encourage the 3,600 people who work for UMB to think about their approach day in and day out?

KEMPER: It's important to me personally. As any organization that has a rich culture gets bigger, any time its scale and size ... purely through the number of people who work for you and also through geographic dispersion it gets harder to keep something like that alive. So we get very focused on the things we can do.

One of the things we do is we have a handbook, an associate handbook, that everybody gets when they come to work for UMB, and it talks about — it's called the TUCE book. TUCE stands for "the unparalleled customer experience," which is our vision statement.

Within that book, it talks about all the things that are near and dear to us. How we approach our customer, how we approach each other, which is very important at UMB. The idea behind the handbook is that it's close to you and you keep it within your briefcase or your attaché case, or in my case, inside my breast pocket, and that way it's near and dear to you more frequently.

HAGEDORN: As Mariner likes to say, there's a lot of places you can work, but there's only one place you can live, and that's UMB.

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