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A Conversation With the Valley's Newest Banker

By Sarwar A. Kashmeri

For the Valley News

The United States Treasury reissued the 30-year bond earlier this month after a five-year hiatus. The so-called “long bond” was welcomed back by Wall Street, but yields on the 30-year bonds were lower than on the Treasury's two-year bills, which is not how the law of supply and demand in money markets generally works.

Lenders expect to get more interest when they lend money for longer periods than when they lend for shorter ones.

Economists call this reversal in the lending environment an “inverted yield curve,” and what makes the phenomenon potentially troublesome is that a prolonged inverted yield curve is supposed to signal the onset of a recession -- the last six recessions have followed this rule.

I say “supposed to” because it is also true that not every recession has been preceded by an inverted yield curve.

Whatever the inverted yield curve and rising short-term rates might mean or not mean as an oracle for recessions, it does have special meaning for banks, and this is especially true for the Upper Valley's many community banks.

Most banks count on their interest rate margin (the profit made from paying a lower interest rate on deposits and making loans at higher rates) to pay for their overhead and facilities.

So, what might today's economic environment mean for community banks?

“I think some banks will struggle with those shrinking margins, and it will be banks of all sizes,” Kathryn Underwood, president and chief executive officer of Ledyard National Bank, told me.

As deposit rates go up, customers typically take their money out of low interest rate accounts and move them into higher interest rate vehicles. “When a CD is paying 1 percent, as we have had for the past couple of years, people will say, ‘Why bother? I'll just leave it in my checking account.' But now what banks are seeing nationally is a trend for depositors to pull their money out of those free checking accounts into CDs and money markets, and that shrinks the interest rate margin,” she said.

Underwood took over the top job at Ledyard four months ago after 25 years with KeyBank N.A. in Maine. She is a community banker at heart, believes in giving back to the community, and found a good fit between “her personal goals and Ledyard's strong community-banking vision” -- a fit that she found hard to pass up as she watched her previous employer grow from a small bank to a large financial institution.

Besides the challenging interest rate environment, what else is on this engaging and focused banker's mind?

“Fraud has increased in our business,” Underwood said, “and a lot of it takes place over the Internet.” She is particularly concerned about “phishing” (pronounced “fishing”) -- those fake emails purporting to be from well-known financial institutions such as banks and auction sites.

In most instances, the fake message asks for confirmation of bank or credit card details. Once those are entered, the criminals who run the fake sites can “clean out your account in minutes,” according to Underwood.

“It is very scary,” she said. “The messages look authentic, down to the logos and proprietary language, and, sadly, a lot of people fall prey to them every day.” Because these banking frauds are committed externally via fake sites, the bank has no control over the fraudulent activity. “So Ledyard has taken the position that it is our responsibility to educate the public,” she said. Under her leadership, Ledyard has posted warnings about phishing on its home page.

Another increasingly important bottom-line issue that concerns Underwood is the increased level of bank regulatory filings that are required by the federal government.

“It is not easing up. Since 9/11 it has tripled,” Underwood said. “We have to file many more reports, need to ask our customers for a lot more information, and it is costly.” Banks the size of Ledyard spend $200,000 to $300,000 annually on regulatory compliance expenses, which also eats up hours of employee time. The American Bankers Association is lobbying to have some of the regulations reviewed to evaluate their cost versus the risk, and Underwood is hopeful that “we will get some relief going forward.”

How does the business climate in this region compare with her experience as a banker in Maine? “New Hampshire is definitely more business-friendly,” she said. “If you were running a company (in Maine) you didn't always feel the decisions that were made were in the best interest of the state. It is the opposite here.”

The one Upper Valley issue that most concerns her -- even though she has only been here for four months -- will strike an instant chord with Upper Valley residents: affordable housing. “The region has a low unemployment rate and lots of wonderful-paying jobs, but there are a lot of jobs that are not paying enough to let people afford to live in the community, and that is a restrictive challenge for all businesses as they grow.”

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