

Banking on Customers

by Sharon Shinn

For someone perched fairly high in the banking hierarchy, Barbara J. Desoer has never lost sight of the end users who borrow money, save money, and worry about money. Even in a short conversation, she finds numerous ways to rephrase a simple philosophy of business: *The customer comes first.*

Desoer, president of Bank of America Home Loans based in Calabasas, California, believes that banks and other institutions will only weather the economic storm by keeping the customer front and center. “During the downturn, we’ve learned so much, and some of it seems pretty basic,” she says. “Many people will say, ‘We all know you should put the customer first,’ but not everybody leads with that philosophy. It makes all the difference.”

She’s in a position to know. Bank of America’s Home Loans division serves almost 14 million customers, or nearly 20 percent of those who have home loans in the U.S. That’s a division she has led since 2008—which means she’s had a firsthand close-up look at how American consumers have dealt with the turmoil in the housing market for the past two years.

Barbara Desoer has helped shepherd Bank of America’s Home Loans division through the collapse of the housing market. She knows that giving customers what they want is the only sure road to economic recovery.





Desoer has held a wide variety of other positions since she joined the bank in 1977, including consumer products executive and chief technology and operations officer. Her versatility and skill have earned her wide recognition; she has been called one of the “100 Most Powerful Women in the World” by *Forbes* magazine and one of the “50 Most Powerful Women in Business” by *Fortune*.

In 2007 she was named “Business Leader of the Year” by the Haas School of Business at the University of California in Berkeley, where she earned her MBA. She serves on the advisory council at the Haas School, and she has definite ideas about how business students can prepare themselves to enter the world of business—even in turbulent times.

If you were teaching a finance class to business students right now, how would you explain to them what went wrong with the economy in the past two years?

I’d give them my perspective, which is that the downturn was led by a crisis in the housing market that led to a credit crisis and ultimately to global recession. I’d tell them that a long list of factors brought us to the current state. These include excessively low interest rates for a long period of time, fundamental flaws in the housing market, and massive global liquidity.

Other factors were complex securitizations in the mortgage market, where the investors lost sight of the whole chain of transaction and didn’t really understand their risk position. At the same time, investment banks were freed

from leverage limits and were overly dependent on debt to finance their activities.

All of these factors led to businesses and consumers being very highly leveraged. When the liquidity stopped, credit dried up immediately. I think the speed of the impact was partly enabled by technology systems that allowed liquidity to flow globally.

What happened next was that businesses, particularly in the U.S., reacted. They stopped hiring, they fired and laid off workers, they shut off inventory production, and they shut off capital investments. They took all of these actions in combination at a rate we had not seen historically. I’d tell students that all of these factors need to be considered if they’re going to understand what went wrong.

What can a business school do to educate the next generation of finance professionals so they learn from this crisis?

The school can let its students know that they’re in a unique position. They have access to intellectual capital and, while they’re in the safe environment of the university, they can study why and how the downturn happened. But even more important, they can focus on coming up with creative ideas about how to turn the world economy around. They have a wonderful opportunity to learn from the crisis and take positions that will influence how we get to the other side.

How do we get to the other side?

We must challenge the business models that operated in a high-growth environment and create models that will operate in the current environment. Sometimes it just takes a new pricing and marketing strategy. Other times it requires fundamental reinvention of the business model from end to end.

At Bank of America, we lead with the customer. We assess what our customers need and what they desire, form a hypothesis of how they will behave, and then build business models around those behaviors. And we do this across all segments, whether consumer, business, or government agency. In the consumer segment, for instance, we see that some of our customers have been changed forever in terms of how they will spend and save.

For example, I recently read a *BusinessWeek* article about how Subway got the idea for its \$5 footlong sandwich from a franchise owner in Florida who wanted to stimulate demand on the weekends. Once the promotion was adopted by the whole chain, it generated \$3.8 billion in sales in the U.S.

The Subway promotion was built around the behavior of consumers, who have shown that they want quality at a reasonable price. In this economy, consumers are saying, “I



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need to save money. I'll eat half of the sandwich now and take the other half home for dinner.”

Technology also has had a major effect during this crisis, enabling businesses to make changes in inventory and capital investment almost overnight. We need to determine how we can invest in such capabilities in the future.

During the economic turmoil, dozens of banks failed—more than 100 in 2009 alone. How did Bank of America stay healthy when other banks went under?

One reason is that we have a diversified business model—we're not just an investment bank, we're not just a consumer bank. While having a large consumer base is hurting us from a credit perspective, it's wonderful to have consumers who currently have a bias toward saving money. We know we need balance sheet strength. High levels of liquidity and capital have enabled us to weather part of the storm.

I think we were also helped because we had invested so much in our brand. Through every merger and acquisition, we've reinforced our brand for a new set of customers and reinforced our culture among new associates.

Bank of America was also eased through the crisis with \$45 billion in federal bailout funds through the Troubled Asset Relief Program (TARP). Many people argued against the distribution of this bailout money. Why do you think it was justified?

When the Treasury Department created TARP, the point was to ensure that all major banks were adequately capitalized so they could continue to extend credit and help the economy recover. When we were asked to participate in the program, we had just completed a capital raise of about \$10 billion, and we felt strongly that we didn't need additional capital. But the government indicated that all banks should participate in TARP so that no one could be singled out as vulnerable or weak. Ken Lewis, our CEO at the time, agreed.

It's important to remember that TARP is an investment, and we paid a healthy dividend rate on that investment. As of December 2009, Bank of America repaid all \$45 billion of the taxpayers' investment, plus nearly \$3 billion in interest.

A huge part of the economic downturn was tied to the collapse of the housing market. Bank of America originates one in five home loans sold to Americans—what was the effect on your institution when the housing market began to crumble?

We did not do subprime mortgage lending, so—relative to the competition—we had a very strong portfolio at that time, but it wasn't a very scalable operation. When we saw that an institution like Countrywide Financial Corporation had become vulnerable, we acquired it. We used the collapse of the housing market as an opportunity to complete the product set we wanted to offer U.S. consumers, including first mortgages.

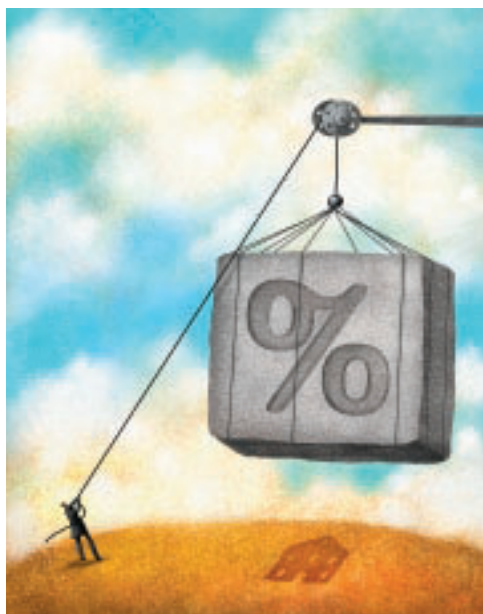
You led the team integrating Countrywide into Bank of America. What were the key elements in making that merger successful?

Any merger requires the people, culture, and technology of two companies to convert to one system. We do an in-depth cultural assessment of the company we're acquiring or merging with to understand how the two cultures compare and contrast. Then we build a close-the-gap plan that details where we're starting and where we need to be.

We also build a team of people who focus full-time on managing the transition. We have more than 500 people and a very strong leader who manage that work stream for us. They build the game plan for how we achieve the cost savings we commit to as part of the merger, largely by integrating the technology platforms. That allows the rest of us to focus on business as usual.

As we integrated Bank of America and Countrywide, we also relaunched the Bank of America Home Loans brand, which enabled us to generate \$378 billion in first mortgages in 2009, helping 1.7 million consumers purchase or refinance homes. So as a result of the acquisition, we helped consumers get cash flowing into their households again during the downturn.

You led the launch of the Bank of America Home Loans brand, which provides consumers with easy-to-understand information about the borrowing process. One



of its major points seems to be making the loan process transparent for consumers.

That's exactly right. We did a lot of customer research to ask, "What's important to you?" And during this time of upheaval in the market, a desire for transparency was top of mind for customers.

We offer tangible evidence of our commitment to simplicity and transparency, primarily by providing our Clarity Commitment at each loan application and again at closing. This is a one-page summary of all the terms, conditions, rates, and fees customers would ever incur. They can go into the transaction understanding the maximum they would ever need to pay for that loan product.

We've also revamped the home loans guide on our Web site to enable customers to make informed decisions when buying or refinancing homes. In addition, we've developed simplified communications for other services we offer, such as credit cards, overdraft protection, and new deposit accounts.

Today's business students are graduating into an uncertain job market—and those who have majored in finance could face a particularly tough search for employment. How would you advise these students to approach their career paths?

Flexibility is the No. 1 priority! I graduated during a recession back in the '70s. I knew my ideal next steps, and I knew my backup plans, and I think I ended up going with the fourth backup plan. In hindsight, it was the best thing that could have happened to me.

I would tell students to be optimistic, but realize that they need to be open-minded. At Bank of America, we're still hiring, but we might not be hiring for the exact jobs they want. Students might need to take a more circuitous route to get to their end games—they need to take long-term views.

Graduates also should really think about the company or the entity they'll be working for, the people who are there, the values that are important to the company. Then, when they take jobs, they should realize that they have an opportunity to help deliver the economy from this recession. They're going to find that more companies are willing to embrace new ideas because so many business models need to be reinvented.

My final advice to graduates would be to make sure that somebody is always asking about the customer. Don't use old assumptions about consumer behavior. Make sure the company is staying current on knowledge about and insight into customer behavior and is using that as the foundation for any decisions its leadership makes.

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You received your MBA from Haas. What parts of your business education have helped you the most?

I was attracted to Haas initially because the school had a strong analytical component, particularly in finance, which was a good match for my math background and my process thinking. But Haas also incorporated the case study method and encouraged students to be intellectually curious. And because it took this combined approach, it reinforced some of my strengths and pushed me to be more creative. I learned to balance facts and intuition, or facts and the perspectives of the team, and this has served me very well.

How have your goals changed since you began your career? What do you see as your next step?

As I've evolved in my career, what's become important is making a difference in the next generation of leaders in this company. I've also found it extremely stimulating to lead a business during a time like this—to lead a business that plays a *major* role in the housing market and its recovery. It's also been extremely gratifying to lead a merger, to assess the talent we've acquired, and position that talent for success. The timing of this particular situation has been phenomenal.

I always say that every opportunity I've had in this company has been better than the last one. Just when I think it can't get any better, it always has. 