

## CBR Observations: [Reading the Tea Leaves – A Strategic Consideration](#)

JP Morgan Chase provides a snapshot of how one bank is positioning themselves for the future. Take a look at the JP Morgan Chase headlines for the last three consecutive days. Day 1: [JPMorgan Chase to raise borrowing standards for home loans](#), day 2: [Chase now requires 700 FICO score, 20% down payment to buy a home](#), and this morning: [JPMorgan reports big decline in first-quarter earnings from coronavirus but posts record markets revenue](#).

It is fair to say that our Nation's largest bank is hunkering down. When commenting on their \$6.8 billion increase to reserves this morning, its CEO, Jamie Dimon, said the move was necessary "given the likelihood of a fairly severe recession." These series of releases indicate that the Bank is:

1. Tightening
2. Anticipating credit losses
3. Preparing for declining earnings

Are there some early considerations that community banks can form given Chase's recent behavior? That depends on your markets, customers, and appetite for risk. In broad terms, you can argue that we are in a recession. Where does this place your strategic alternatives? Here are four broad-based considerations to initiate your strategic thinking:

1. Hunkering down: does your bank follow a Chase-like course? Tighten credit, increase reserves, control expense, keep your powder dry, etc.
2. Stay the course: does your bank stick to your knitting? Does a recession have less impact on you and your markets? Can you maintain asset quality, earnings levels, and growth?
3. Lean into emerging opportunities: is there a contrarian scenario that can result in elevated performance? If a number of banks are tightening, does that represent new customer or employee opportunities for you? In every down economy there are some number of winners. Is there an adjustment to your strategy considering target markets, customers, products or partnerships that result in peak performance?
4. Hybrid direction: do you find a nexus that integrates these three strategic alternatives?

Whichever course you choose, the key take-away this morning from Chase is that they read their version of the tea leaves, and have taken deliberate steps to set their near and long term course to sustain and ultimately build value.

I encourage you to read your tea leaves. Set your near and long term priorities based on what your tea leaves are telling you.

Remember, with adversity comes opportunity.

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