U.S. Bancorp CEO Richard Davis Visits Davis, Tallies Challenges

Richard Davis likes to keep the pot boiling at U.S. Bancorp, the nation’s sixth largest financial holding company.

“Hot water at 211 degrees is inert; at 212, it’s making something happen,” said the president and CEO of the Minneapolis-based financial giant.

“In banking we don’t celebrate the near misses,” Davis explained. “We celebrate making things happen, and we celebrate doing things to make your lives better, whether it’s cashing a check or making a loan.”

Davis has done plenty of big and small transactions in his 30-year banking career—from breaking a $20 bill for a customer to playing a key leadership role in a $21 billion merger that vaulted U.S. Bancorp into the nation’s top 10 biggest banks. His ascent to one of the most influential executive positions in the sector began on the bottom rung.

Starting on the frontlines, Davis worked as a teller during the eight years he spent in night school earning a bachelor’s degree in economics from California State University at Fullerton. He quickly rose through the ranks, becoming an executive vice president at Bank of America and then Security Pacific Bank before joining U.S. Bancorp’s predecessors in 1993. He was named CEO last December.

Davis steers a financial holding company with more than $219 billion in assets, a market cap north of $60 billion and business across the U.S., Canada and Europe. U.S. Bancorp is the parent of U.S. Bank, which has more than 2,400 branches and nearly 5,000 ATMs in 24 states. The company has more than 50,000 employees.

At the invitation of Dean Nicole Woolsey Biggart, who serves on U.S. Bank’s Sacramento-area community board, Davis visited the Graduate School of Management on March 7. His high-energy and entertaining talk poked fun at the straight-laced banker stereotype while gravitating to the critical role banks play as stalwarts of the economy. He also shared U.S. Bancorp’s recipe for success.

BANKING ON THE BASICS

Despite its size, Davis has focused U.S. Bancorp on personal service and customer loyalty with a “Five Star Service Guarantee” that is woven into its corporate culture and set it apart.

“We are amongst the strongest, healthiest and most vibrant in our peer group,” Davis said. “It’s very important that we not let large equal bad, or large equal anonymous, or large equal average. Because that happens a lot in companies and institutions. We need to keep everything one person at a time, one transaction at a time, one opportunity at a time.”
Shareholders have celebrated the bank’s winning formula. During the past decade, U.S. Bancorp stock has significantly outperformed its peers and earned twice the return of the S&P 500 index in the period. One hundred dollars invested in U.S. Bancorp stock in 1996 was worth $487 at the end of last year.

The company makes half of its revenue from fees, which Davis said are not tied to the Federal Reserve’s interest rate whims. U.S. Bancorp’s mix of consumer and wholesale banking, combined with wealth management and payment processing, have created a relatively simple yet consistent money-maker that posted $4.8 billion in net income last year.

“That’s why Warren Buffett invests in us and others do—because of our diversification in earnings,” Davis explained. Just three weeks before Davis spoke at the
School, the Oracle of Omaha’s Berkshire Hathaway revealed it’s $843 million purchase of U.S. Bancorp stock.

A BUSINESS OF RISK AND TRUST

Davis said the simplicity of banking hasn’t changed since the Gold Rush, when Old West bankers held prospectors’ shimmering deposits and loaned them out with interest. It’s the competitive landscape that constantly shifts as regulatory prescriptions, fast-paced technology advances and ever-changing global markets add new levels of complexity and fuel the proliferation of financial products.

“We are in the business of management of risk and trust,” Davis explained. “We know who to trust and we know the risks. Every once in a while we make a mistake, and that’s called a loss.”

Davis assured the standing-room-only audience that the banking industry remains solid. “We have learned a lot of lessons since 1989 and 1990, when many banks were brought to their knees because of a credit crunch from the commercial real estate crisis.”

However, Davis rightly predicted that the meltdown in the sub-prime lending market would leave a “burn spot” in 2007 for banks and financial companies with the risky loans on their books. Sub-prime mortgages are made to customers who are often less qualified than they should be to pay back their loan because they can’t weather a downturn in their economic situation or interest rate hikes.

“I’m happy to report that we aren’t in that business and we don’t have those kinds of loans,” Davis said of U.S. Bancorp.

“This might be the first real crisis that the financial institution community has faced in 15 years.”

So what keeps Davis up at night? His main concern—shared with other major players—is whether the country’s current money market is “a house of cards” or “a firm foundation.”

He explained that during the past three decades traditional U.S. commercial banks have lost a significant share to private equity firms, private investors and foreign banks, all of which U.S. businesses have increasingly turned to for capital. In fact, U.S. businesses today seek loans from domestic commercial banks only about half of the time, down from about three-quarters of the time in 1974.

Davis believes the pendulum will swing back in favor of domestic banks; the question is how far. He said one problem is that U.S. Bank’s best commercial customers aren’t tapping their credit lines because they are so strong they don’t need debt.

MERGER MANIA SPAWNS MEGA-BANKS

During the past quarter century, banking industry consolidation has created the greatest opportunity and led to increased profitability and return on equity, according to Davis. The top 10 U.S. banks continue to concentrate their holdings. These mega-banks now control 30 percent of branches, 43 percent of deposits and 55 percent of assets.

Meanwhile, the number of FDIC-insured commercial banks has fallen from 15,000 in 1984 to about 8,000 today. Once familiar names like Chemical, NationsBank and BankOne are gone.

“We will never go to five banks because this is America and there is a community bank on every corner,” Davis said. “And it’s wonderful. It keeps us on our toes and meets people’s different needs.”

And those demands run deep, to the core of the American way of life. Davis said the country’s financial security and prosperity rest on a healthy banking system.

“At the end of the day,” Davis told the audience, “the reason banks move this country forward is because this building we are in was financed by funds from a bank, the car you drove here in was somehow financed by a bank, and the house you’re going to go home to was somehow financed by a bank…What we do matters.”

View the Web video of Richard Davis’ talk @

www.gsm.ucdavis.edu/multimedia