

The Baker Group and Texas Community Banks: 30-years and Going Strong

By Jeff Caughron

For nearly a third of a century, the Baker Group has been a partner with community banks in Texas as they've navigated through some fascinating and often challenging times. When the firm was started in 1979, Federal Reserve Chairman Paul Volker launched an unprecedented tight money campaign in order to fight inflation which reached 13.3% in December of that year. The banking industry was coping with enormous change as deregulation and an explosion of new financial products forced bankers to rethink the way they did business. Meanwhile, the price of crude oil skyrocketed in the wake of the Iranian revolution, and suddenly interest rate volatility soared. In the midst of all this turmoil, the Baker Group (then called James Baker & Company) began to help Texas community bankers adapt to the changes through the use of a new concept called "Asset / Liability Management", which was the title of Dr. James Baker's best-selling book on managing interest rate risk, published that same year.

Since 1979, we have survived vast changes in our economy and our world. The banking industry has seemed to move in fits and starts. In the eighties and early nineties, we saw the collapse of financial institutions large and small, the creation of the nation's first trillion dollar bank, and a general consolidation of the banking industry. At the end of the nineties we watched the stock market soar as the dotcom bubble expanded, then burst. The entire world was shocked in 2001 by the attacks on the World Trade Center, a human tragedy which also targeted the financial core of the global economy. Then in the first few years of this decade, we witnessed what's come to be called "The Great Moderation", a period of very low and stable inflation, interest rates, and market volatility. But the calm was violently broken with the stunning developments of the past eighteen months.

Along the way during this 30 years, we also heard soothsayers predict the end of community banking. They were wrong. De novo charters flourished nationwide, S-Corp tax benefits reinvigorated the industry, and community banks are not just surviving—they are thriving. Indeed, when you look at the banking landscape today, it is independent community banks that are generally well-capitalized, healthy performers without toxic assets on the balance sheet. This stands in stark contrast to the mega-banks that are in so much trouble today. We believe the Baker Group has played some part in the success of community banking, starting with the “systems approach” of asset / liability management that Dr. Baker outlined all those years ago.

Baker’s concept of asset/liability management remained a bit of a mystery to many bankers in the early years until they found themselves “upside down” because of their rate structure. Banks watched in horror as their short term liability rates climbed toward 15-20% while their long term assets were locked-in with single-digit rates. It wasn’t pretty. Yet, this problem highlighted the need for a system to help define, measure, and monitor interest rate risk. What seems like a common business practice today was, in fact, a near revolution at the time, and our Texas clients were there at the beginning.

In 1981 the Baker firm released one of the first asset/liability software models designed for the personal computer. This development helped the company grow rapidly as James Baker, ever the professor, was on the road nonstop educating banks about asset/liability management so they could make more appropriate investment portfolio decisions. After Jim’s retirement in 1989, Doug McQueen was named chairman and president of the firm. Under his leadership, the firm has continued to innovate and grow some ten times in capital and now serves clients in 36 states from east to west.

Several years ago James Baker and Associates became simply The Baker Group. This shorter name and our new logo reflect our dynamic view of the future. Yet one thing hasn’t changed: Our people share a common vision to deliver information, services and products of exceptional value to those with whom we share success.

The Baker Group's success is also seen in the company it keeps. The partnership with Texas community bankers is particularly meaningful because it has been so beneficial to our clients and our firm, and also because of the relationships we've developed. This is why Baker continues to believe community bankers will not only survive—we believe the industry is well positioned to prosper going forward as large banks deleverage and business moves back to smaller, more manageable community-based institutions.

Even after 30-years, The Baker Group continues to evolve. Our expertise and service has expanded into new products and enhanced services—such as our expanded on-line educational programs, the content of our website, financial articles and newsletter, and of course our top-shelf software programs. Most notably, the newest version of Interest Rate Risk Monitor (IRRM) was released in the last year, continuing our tradition of cutting-edge asset / liability management software.

This is why our 30th Anniversary was not about the past. It is a call to action for another 30 years of success. The Baker Group - - still a strong partner and a sound investment firm with solid ideas for 21st century Texas community bankers.