

BOND, JAMES BOND (AND LOANS)

by [Steve Brown](#)

The latest 007 film opens today, marking the 21st in the longest running and most successful franchise in film history. Every Bond film has been profitable and the latest (with the "new" Bond, Daniel Craig), should be no exception. Part of the franchise's attraction has been its willingness to change to reflect current political, social and economic times — encompassing different Bonds, villains and morality. Adaptation and evolution have been hallmarks of the 007 series and should serve as a lesson for bank loan portfolio management. Prior to 2000, banks were content with treating the loan portfolio as static. That is to say, they put a loan on the books and forget about it. Since the turn of the millennium, banks have shifted to a more active management stance focused on profitability. Buying or selling loans to change allocation mix, purchasing additional credit support and managing borrowers to enhance performance have now become commonplace. The same principles of investment portfolio management apply to loans with one additional dimension - the ability to modify existing exposures. Lenders can affect the maturity and structure of the existing portfolio. As some loans have decreased in cash flow coverage, less profitable customers are being "incented" to refinance elsewhere or restructure. Reminders of an upcoming maturity and special rates (in exchange for additional collateral) are just some of the many tactics banks are using to cajole borrowers to help them change risk profile. Alternatively, profitable customers and good credits are being enticed to stay by automatically renewing existing loans and extending maturity well before due. Granted, banks can only do so much with borrowers, but that is where the burgeoning loan marketplace comes in. With more liquidity than ever, loans can be sold, participated or purchased to fine tune mix. The Banc Investment Group makes an active market buying and selling loans. If you are a user of our Loan Pricing Model, you will be comforted to know that we put our money where our mouth is and use our own model to credit score each loan we purchase or sell. We usually purchase loans to a 26% ROE and sell loans to a 23% ROE. By using these figures, banks can gain a pretty good sense of the value they are creating. For banks not using our model, to give you an indication of what loans are fetching the highest prices here is the list in order: Multifamily; Commercial — Unsecured; Office; Retail; Mixed-use; Self-storage; Industrial; Construction; Hospitality; SFR and Senior Housing. As default rates and performance change, successful banks "stir and shake" their portfolio to reflect the current outlook. Give us a call to get a price on a loan or participation to see if you can take a gain and boost profitability. For banks short of budgetary goals, now is the time to add credit exposure and gain additional earning assets. Banks interested in selling or purchasing loans before year-end, should let us know, as December is by far our busiest loan trading month. However, as huge 007 fans, don't call late today, because we will be leaving an hour early to catch the latest installment.

BANK NEWS

M&A

Middlefield Banc (\$314mm, OH) will acquire Emerald Bank of Dublin (\$38mm, OH) for \$7.3mm, or about 1.4x book.

M&A

CenterState Banks of Florida (\$1.0B, FL) will acquire Valrico Bancorp (\$157mm, FL) for \$40.4mm or about 2.6x book.

M&A

Summit Financial Group (\$1.2B, WV) said it will sell its mortgage business due to poor performance.

M&A

In a shocking twist, the CEO of BB&T told a bank analyst in an interview that the company is ready to discuss a "merger of equals." The analyst said the comment made an acquisition of BB&T "far more likely." Meanwhile, the CEO also indicated the bank had tried to initiate a merger of equals with Regions, but could not make the price work. At \$118B in assets, BB&T is the 10th largest bank in the country.

Competition

Comerica (\$58.5B, MI) announced a continuation of its recent expansion in CA with the opening of 2 new branches. The move pushes the total in CA to 68, with a goal of close to 30% more within the next 13 months.

Fee Income

In an effort to boost non-interest income, studies of regional banks find they charge fees on roughly 50 different products and services.

Milton Freidman

Our teacher, our hero, our economic muse, passed away yesterday at age 94. Next to Adam Smith, Dr. Freidman was perhaps the greatest economist that ever lived. As a long-time San Francisco resident, we used to stop the Nobel Prize winner and ask about the future, he used to always end by saying, "Â...but its not up to me, it is for the markets to decide." He was a capitalist's capitalist and will be missed.

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