

## THE RISE OF THE BUSINESS CENTER BRANCH

by [Steve Brown](#)

While branch expansion plans remain hot, the pendulum is starting to swing back. Many banks are now questioning the need for expensive real estate and many new branches remain unprofitable. The pressure for cheaper deposits and increased loan growth, however, continues to force many CEOs to take a chance on regional expansion by way of expensive brick and mortar. One alternative that we will be discussing at our upcoming Executive Management Conference in March is the rise of the "Business Center Branch." Whereas a standard branch now costs approximately \$1.8mm to open, the smaller and more nimble business center branch costs in the neighborhood of \$325k. Often located in retail centers, office parks and on the upper floors of popular office buildings, the Business Center Branch is designed to be a full service branch, but in smaller form. Instead of a series of teller stations, the business branch has 1 or 2 desks for accounts and teller activity and another 2 desks for loans. The look is smaller and less customized, but still high-end. The key to this strategy being used by banks is to hire away critical personnel from a competitor, give them a piece of the profitability of the location, make these smaller branches convenient to their home and use both to attract small and mid-sized businesses. Locations are usually directly in the growth path of a metro market, or used as in-fill locations to increase penetration. One key element to this strategy is to increase marketing dollar expenses to provide larger than normal signage calling attention to the location. While a standard branch would need about \$35mm of deposits to breakeven, these Business Center Branches need only \$7mm. As we track the Business Center Branches that were opened in the past 2 to 3 years, we see an average growth rate of 35%, average deposit balances of \$12mm and profitability of more than 27%, making them one of the more cost effective distribution points within a bank. While opening up branches that look similar to real estate offices may not be for everyone, certain geographical locations and banks with established brands and flexible management styles may find the Business Center Branch just the channel needed to keep the efficiency rate low and earnings on an upward swing.

### BANK NEWS

#### **M&A**

Heritage Commerce Corp (\$1.1B, CA) will acquire Diablo Valley Bank (\$229mm, CA) for about \$70mm, or roughly 2.9x book.

#### **M&A**

Mercantile Bancorp Inc. (\$1.4B, IL) will acquire the HC of HNB National Bank (\$160mm, MO) for about \$30.2mm, or around 1.8x book. The move gives Mercantile 13,000 new depositors and expands their geographic reach.

#### **M&A**

CVB Financial Corp. (\$6B, CA) will acquire First Coastal Bank (\$245mm, CA) for about \$35mm, or roughly 1.8x book.

#### **M&A**

IndyMac Bank (\$26.5B, CA) will buy the retail mortgage platform of New York Mortgage Trust for \$13.4mm. The move adds 32 offices in 11 different states.

## **FRB**

The FRB of Atlanta has named Dennis Lockhart as its president. Lockhart was previously a professor at Georgetown University and a managing partner at a private equity firm.

## **Valentine's Day**

Banker looking for new customers will find a new survey by Money Management International interesting. The survey found that when it comes to relationships, 40% of people think having low debt is important, 37% value people with a good credit history and 28% think a reasonable level of savings are important. Tell your single customers looking for Mr. or Ms. Right to open an account before Valentines Day.

## **Women Bankers**

According to a new study, 75% of workers in the banking industry are women, yet only 12.6% hold executive positions.

## **Apartment Sector**

Banks with heavy multifamily exposure may be interested to know a new study projects landlords will raise apartment rents by roughly 5% this year, marking the 3rd year in a row. Meanwhile, the study found that some areas won't be able to raise rents (due to condominium overbuilding) including Miami, San Diego and Las Vegas.

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