

OF FUNNY WIGS AND INVESTMENT BANKING

by [Steve Brown](#)

British statesman, Lord Chesterfield (early 1700's) was made famous for written advice he gave to his son on how to succeed. He gave so much good advice in fact, that it was eventually published in a book. We focus our efforts on one such quote he is credited with that states, "Advice is seldom welcome, and those who need it the most, like it the least." Given so much talk about mergers and acquisitions in the banking industry and the fact that studies show only 30% to 40% of bank M&A activities end up working out for the shareholders, we started thinking about the financial advisor/investment banker ("IB") function. In short, the IB's primary focus is to advise their client on high level financial dealings, including recommending and assisting with strategies for taking over or merging with other companies. With so much at stake, banks need to be certain they select the right IB that will give them the best chance of success. In particular, banks should seek an IB that is trustworthy, offers an honest assessment, listens, has market knowledge, has a good reputation, is experienced, committed and a good communicator. Execution is critical, so it is not only important that the firm have strong experience, but also the individuals working on the bank's specific transaction. More and more, banks are reaching outside their geographic footprint or business line, so depth, complexity and previous experience are critical. Bank's shouldn't get caught up in the number of deals the IB has closed, but rather the number that look like the deal the bank is interested in closing. In addition, with so many overseas banks purchasing financial institutions in the U.S., banks should also understand the global reach of any IB under consideration. These days, the power of Excel and the SNL merger model have reduced much of the value of the financial modeling prowess IBs used to tout and placed it directly into the hands of the bank. The value of the IB isn't about how many analytic comparisons can be cranked out, but rather more about the items listed above. A good IB is a good negotiator, has the ability to keep the deal on track, easily handles regulatory and legal issues that crop up and reviews all possible strategies (branching, raising capital, divestiture, etc.). The IB must not only understand the bank's culture, but also its strategic goals, value proposition and niche. Bankers may find it particularly interesting that IBs can be chosen for some unusual reasons as well. In fact, some research suggests banks pick IBs based on optimism of the analyst (the more optimistic the research write-ups, the more likely that firm is to be chosen), the advisor's reputation, the level of "status" of the primary analyst, and whether the bank has done a deal with a given IB in the past. Finally, despite all the grousing about fees, the one thing that doesn't seem to sway the IB selection very much is the fee charged (although IBs have been known to reduce fees to keep customers). If you are considering a merger or acquisition, good luck and we hope this information helps in some small way. If not, we leave you with these parting words from Lord Chesterfield who also said, "I sometimes give myself admirable advice, but I am incapable of taking it."

BANK NEWS

Competition

Bank of America's CEO said his 2007 loan strategy is to focus on making loans to small businesses, originating residential mortgages without using brokers and selling credit cards.

Competition

Supermarket chain Kroger has been quietly and directly marketing mortgages, home equity lines of credit and insurance at 24 stores in OH. The retailer said it plans on rolling out financial products and

services at its 2,200 stores.

Competition

Comerica said it plans to open 30 branches in 2007 including 14 in CA, 9 in TX, 5 in AZ and 2 in MI. The bank expects to spend roughly \$2mm per branch, for a total of \$60mm and to have each one profitable within 18 months.

Competition

ING is reporting focused marketing efforts in IL in the 4Q helped it add 587,000 new customers.

Customers

The American Banker is reporting that as of the end of 2006, there were 3.6mm HSAs opened in the country, holding more than \$5B in deposits. Projections show that by the end of the year, there will be 8mm accounts and \$14B in deposits in this product. Experts say 1,200 financial banks, thrifts and credit unions in total offer HSAs at this point.

Innovate

A study by the Boston Consulting Group finds 81% of CEOs say innovation is one of their top 3 priorities for 2007.

Outsourcing

A study by Deloitte finds that over the past 3Y, the percentage of banks that have outsourced at least some of their operations to India or Asia has climbed from 26% to 70%.

Massive Competition

Wal-Mart will begin to offer consumer banking services in Mexico through Wal-Mart de Mexico SAB. The company will open branches in 576 stores starting in July. We wonder how long it will be until the company buys a U.S. bank and starts operating here.

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