

## "WHY THE CHURCH BUILDS CATHEDRALS"

by [Steve Brown](#)

Last year we conducted some analysis for a client bank to answer the question - should you lease or own your branches. The answer it turned out, in our opinion, was that a bank was better leasing. On one side of the equation, we noticed banks that owned their own branches traded at higher multiples to tangible book value by an average factor of 0.24. In addition, the average branch property (with land, and assumed a 3,700 sq ft property) had a 5Y annual appreciated rate of approximately 6%. We took that premium (done using 2006 multiples) and appreciation and then compared that return to the amount of leverage that could have been gained by had those banks used that capital to book loans and securities. We assumed banks could fully redeploy capital in a 75% mix of commercial loans (non-construction) (average loan size \$3mm with a 5Y term) and a 25% of agency securities. We used an average risk and cost-adjusted margin of 2.05% and maintained a 10% Tier-1 capital ratio. We also assumed a triple net lease rate of \$20/sq. ft. Because the present value of income from those marginal loans and deposits was greater than the 0.24x tangible book plus appreciation (net of lease and assuming the same operating costs), we came to the conclusion that the average bank should lease their branches and redeploy the capital into loans and deposits. This was our belief until the other day when we ran into a veteran banker that believed the opposite. His take was that since significant improvements are largely wasted on a leasehold interest, only by owning the property does it makes sense to build a grand branch. The impact that the branch has on a brand, morale and marketing, the CEO argued, was not taken into account in our analysis. This CEO built a Taj Mahal-type branch that, by conventional analysis, would not break even for 5+ years. However, after approximately 6 months of operation, the branch was a lynchpin in the community's revitalization efforts. As such, it raised the bank's profile in the community, garnered a tremendous amount of goodwill and grabbed profitable customers better than any marketing promotion. The net result is that deposits are growing like crazy and this branch looks like it will be profitable in a much shorter amount of time. While we are still not sure our analysis needs refinement, we are willing to take another look. Regardless, this banker made us re-think the role of the branch as a substantial contributor to brand and made us better appreciate the practical logic of the Catholic Church building cathedrals.

### HIGH PERFORMANCE BANK WORKSHOP

Our next workshop is announced and will take place on September 27th and 28th at the Ritz Carlton on the coast of CA in cool and breezy Marina del Rey. This 1.5 day session will cover in-depth material on: loan pricing, funding tactics, profitability management and strategic initiatives. In addition to the workshop topics, a focus group of business customers will discuss what they think about community banking, want from their bank and what it will take to move their relationship. Find out first hand how branching, brand, Internet capabilities, rate and service enter into the decision equation. The cost for the Workshop is \$1,297 per person and includes meals and a 100% satisfaction guarantee. In order to allow banks to freely exchange ideas, registration will be restricted to one bank (and one attendee) per general market area. Registration will be taken on a first come, first serve basis and will be limited to approximately 40 institutions. For more information, see the brochure attached to this e-mail.

## BANK NEWS

### **M&A**

The HC of The Home Savings and Loan Company (\$2.7B, OH) will acquire the HC of Park View Federal Savings (\$905mm, OH) for approximately \$130.8mm, or roughly 1.5x book. The move adds 17 branches to Home's existing network.

### **Branch Sale**

Marshall & Ilsley Corporation (\$54B, WI) will sell 3 branches in OK to Arvest Bank (\$9.2B, AR) for an undisclosed sum as the bank fine tunes its market focus.

### **Mobile Banking**

Wells Fargo & Co announced it now offers a mobile banking service throughout the country allowing its customers to access accounts, view transaction history and transfer money. The bank previously announced it was also testing a similar mobile banking product for businesses called CEO MobileSM.

*Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.*