

## THE BURNING MAN BANK

by [Steve Brown](#)

In the Black Rock Desert in Nevada, the Burning Man festival is currently taking place with some 40k revelers. Part 60s-redux, part outdoor art gallery and part wing-nut haven, this self-described "experiment in community, self-expression and radical self-reliance" is wildly successful on many fronts. One little known front is a financial one. At \$222 per ticket, the bacchanal brings in over \$8mm in revenue per year, providing proof that independence and community cohesiveness can be profitable. This contrasts with a popular bank equity analyst that we spoke with last week who predicted that independent banking is dead. Banking, he argued, has turned into a commoditized business and only those that run banks efficiently and build scale; will prevail. Community and independence count for little in this analyst's way of thinking. With all due respect, he has it all wrong. Like Burning Man, community banking has and will only become stronger in the future. It is true that the country may have too many banks and that some have average or below average performance. There is also a group that deserves to perish at the next market shake out, as they have no value proposition and little respect for banking fundamentals. However, a majority of community bank management teams far exceed anything a large bank can muster. Many of these community bankers either have grown up living and breathing local banking or have spent some time at a large bank and left because they knew they could do better. In addition to the quality of management, community banks have two major things going for them. The first is local knowledge. A large bank cannot possibly replicate the relationships, credit and deposit knowledge that is derived from concentrating on a small market area. Small business lending, for example, takes a level of personal knowledge that will not fit readily into a large corporate bank structure. A classic example that we have studied is "President Selling." If a business is within a 3 mile radius of a bank branch, and a bank president makes calls on these accounts and asks for the sale (be it loans or deposits), that bank is 4x more likely to get the business over a larger bank that only has a mid-level manager involved. Another way to look at this is the fact that you have senior management hand holding a small account is worth about 62bps. That is, your bank can offer deposit rates that are 62bp lower than national banks just by being local. This is one of the best quantifications of local knowledge and counters many of the economies of scale that larger banks enjoy. A second major advantage that community banks enjoy is the continued rise of technology. At the Banc Investment Group, we have a large number of models (from our Banker's Loan Platform, Business Sweep, Credit Stress Analyzer, Liability Coach and Loan Pricing Model) that are very similar to the technology that large banks use to compete against one another. Remote capture, online banking, imaging ATMs and credit scoring are all ways that technology has leveled the playing field between community and large national banks. As the economy slows and technology continues to improve, smart community banks will find ways to leverage their position and grab market share away from the large banks. Superior credit knowledge will further enhance margins and limit risk. While community banking is heading for a downturn along with the rest of the banking industry, we are very optimistic of the long-run economics of being independent and forging a sense of community. Independent banks will thrive and while they only allow the barter system at the Burning Man festival, it is only a matter of time before some community bank capitalizes on the celebration's notoriety and starts handing out t-shirts.

## BANK NEWS

### **M&A**

Northeast Bancorp (\$557mm, ME) will acquire its 5th insurance agency in less than a year, after plunking down an unknown sum for Hartford Insurance Agency. Hartford has \$8mm in premiums, 3,700 customers and 9 employees.

### **M&A**

BancorpSouth Bank (\$13.2B, MS) will buy Insurance Network for an undisclosed sum. Insurance serves clients in aviation, banking, construction and manufacturing.

## HIGH PERFORMING BANK WORKSHOP

For those looking to explore more of the future of what independent banking will look like, we have 2 spots open at our High Performing Bank Workshop coming up in Los Angeles on Sept 27th and 28th. If you are a President, CEO, or other executive manager and want to learn more about what is working at other banks for loan, deposit and strategic planning for 2008; this is the hands-on workshop that you are looking for. The live small business customer focus group alone is worth it. For more information, contact us.

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