

SELLING YOURSELF IN TOUGH TIMES

by [Steve Brown](#)

Given the fact that bank stock prices are in the doldrums right now, we figured they could use a little fluffing up. One problem is that all bank stocks are now painted with the same subprime/credit quality brush. While a difficult time for the industry as a whole, the current market gives management teams even more of an opportunity to make a difference. These days, ironically, the key is to sell the story how your bank is not like Citibank and Countrywide.

We talked to a variety of institutional investors that traffic in bank stock, as well as banks that just finished raising equity and asked what the "real" drivers are in the sales process. Other than above average historical performance, we distilled 5 attributes that should be stressed in any bank investor presentation.

1) Sustainable earnings - In a changing rate environment, bank investors are naturally skeptical that any bank can maintain its earnings. Don't assume that investors have a clear understanding of how interest rate sensitivity works. We have sat through dozens of investors meetings at it always seems that the group assumes the worst. If rates are going up, they want to believe a bank is liability sensitive. If rates are falling, investors seem to assume that the bank is asset sensitive and margins will compress. By stating your asset-liability position and then proving it with historical evidence (that shows how your bank performed in the last down interest rate cycle) will capture their attention.

2) Dividends - Next to earnings, nothing screams "buy me" like a healthy dividend. It is ironic that while paying a dividend makes little economic sense for a fast growing bank in need of capital, but investors are suckers for a cash-on-cash return. Establishing a consistent dividend, or highlighting when one is expected, will help capture investor interest. If this is not possible, then discuss how the bank has better uses for the capital than other common alternatives (like the popular stock indices) and your bank will become known as a superior steward of capital.

3) Balance sheet strength - Investors lust for earnings, but decide they want to get married to an investment based on safety. Proving that non-performing assets are under control, cash flow is abundant and liabilities are solid, will be all that it takes to convince many investors to come to the altar. "Fortress-like" balance sheets always impress.

4) Market position - Outlining the bank's competitive position versus peers helps highlight distinguishing features of the bank. Explaining your plan for generating an increase of year-over-year loan growth and how the bank will generate non-interest rate sensitive deposits will lock them in to the sale.

5) Goals - Both professionals and amateurs alike, love to be captivated by a vision. To the extent that a bank management team can paint a picture of gaining significant share in any niche of a desirable market, so much the better. While general performance is good, specific performance in a targeted area helps distinguish banks from the crowd. Examples of an ability to gather cheap deposits through a superior cash management platform, specialty lending and trust business lines have all helped banks raise equity easier.

"Selling" investors to buy a bank's stock or to invest new equity is never easy, particularly given the current market. However, a well crafted message highlighting facts, but also appealing to emotions, has the best chance of success.

BANK NEWS

M&A

Oritani Savings (\$1.1B, NJ) will acquire Greater Community (\$966mm, NJ) for \$187mm, or 2x book value.

Cost of Debt

For the first time in more than 10 years, the country's largest banks (Citi, Wells, etc.) are trading at credit spread levels above that of the average industrial corporation (149bp vs. 134bp).

Consolidation

New Century Bancorp (\$589mm, NC) announced it will merge 2 of its subsidiaries, New Century Bank and New Century Bank South, in early 2008.

Liquidity Shot

On Thursday, the Fed pumped \$47.25B in temporary reserves into the banking system, the largest daily infusion since 9/11, in order to calm a rise in overnight interbank lending rates.

E-Banking Department

In order to help clients fully benefit from the latest technologies, Pacific Coast National Bank (\$72mm, CA) has created a fully-staffed department devoted exclusively to electronic banking.

Banking Freedom

BofA has launched "Bank the Way You Live," an online banking microsite that provides information on valuable mobile and Internet banking tools that give customers the freedom to bank without boundaries.

Better Disclosure

The SEC approved a rule that allows for reduced disclosure requirements for companies with less than \$75mm in market capitalization (or with sales under \$50mm).

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