

## MAKING BANK STOCK FROM LEMONS

by [Steve Brown](#)

Monday was one of the first days in a while that bank stocks put in a respectable day in the market. Given that the only records our industry has been breaking are negative ones, we figured that our sector could use some good ol' fashion jawboning. These days, promoting your stock (within S.E.C. guidelines of course) is everyone's job, not just the CEOs. Line personnel, back office, senior management and board members all need to be able to hit the salient points in talking up their institution. Marketing, in particular, gets the ability to deliver thousands of "touches" per year, so why not start to work some facts about the institution in statements and other general marketing material?

No matter if you are talking to an institutional investor or a local equity shareholder, it is important to keep these 4 items in mind in order to "Wow" your current or potential investor base:

1) Balance sheet strength - Investors lust for earnings, but decide they want to get married to an investment based on safety. Every equity buyer these days is worried about credit quality, diversification, reserves and potential future losses. 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. Playing up the "fortress-like" aspects of the balance sheet will surely impress.

2) Sustainable earnings - In a rising 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 an asset sensitive balance sheet works. By highlighting periods of higher rates and showing asset-liability data, convincing investors that earnings can be sustained, despite higher funding costs, will capture their attention.

3) 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 that needs capital, investors are suckers for a cash-on-cash return on their investment - call it a marketing expense. If your bank is not in a position to pay a dividend, be able to explain how you are increasing safety by increasing capital levels in order to take advantage of future opportunities.

4) Market position - 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 and extrapolating a "core expertise" in that sector, so much the better. While general performance is good, specific performance in a targeted area will serve as a feature that can help distinguish banks from the crowd. Examples of the ability to gather cheap deposits, specialty mortgage lending and trust business lines have all helped banks raise equity easier. Being able to explain your sustainable advantage or "value proposition" in terms other than the cliché "superior service" or "customer focused" will help boost interest.

"Selling" investors to buy a bank's stock or to invest new equity is never easy. These days it is even harder. For management teams that have skirted credit quality problems or have recognized their issues early, we believe bank equity prices are so good they are very hard to pass up. On a relative

value or earnings multiple basis, few other sectors can compare. Having a well crafted message highlighting facts, but also appealing to emotions, has the best chance of succeeding.

## **BANK NEWS**

### **Card Fines**

First Bank of Delaware (\$118mm, DE) and First Bank & Trust (\$794mm, SD), along with their card marketer, CompuCredit, got hit with \$200mm of fines and restitution by the FDIC and FTC. These entities allegedly engaged in deceptive credit card marketing practices, including failure to disclose fees and credit limits.

### **ID Theft**

According to Carnegie Mellon researchers, data breach laws have no significant affect on reducing identity theft, perhaps simply because many consumers disregard breach notification letters. Their research paper suggests the U.S. government consolidate breach laws, standardize notification requirements, and form a committee to manage all breach data. Fraudsters are getting better; Major U.S. banks have seen an increase in fraud in the past 18 months and project a substantial rise to continue.

### **Income and Banking**

As household income increases, so does the likelihood of using online banking applications. Approximately 75% of users are households with incomes over \$75k. On the other hand, there is no link between income and frequency in account activity.

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