

THE HAVES AND HAVE NOTS

by [Steve Brown](#)

It is important to recognize when filing the Treasury Capital Purchase Program ("TCPP") application that banks get triaged according to need and balance sheet position. We know of many banks that have filed their application, but have not heard back in over a week. While some banks hear back in 3 days, as more banks file, the process will be slowing down. In addition, while "fast track" guidelines exist, primary regulators, in concert with their Treasury counterparts, may choose not to act on an application until later in the process (so more information can be gathered about the bank, peers, geographic area or capital availability). The question comes up, what happens if your bank is declined as to capital?

While this is a little like not getting drafted for 7th grade baseball, the first thing that has to be done is to dust off the ego and seriously contemplate the future. At its most basic level, not receiving capital is a signal that the Treasury does not feel it can either get an appropriate return or that it will not be able to achieve its objectives of supporting the banking industry and the economy. In either case, selling the bank must be considered.

Here, some deep introspection is required by management, the board and major shareholders. Let's face it, the nation may not need all 8,410+ banks and many analysts predict that about 1,000 will have to go to reach equilibrium. If your bank is short capital, resources and market opportunity, now is the time to outperform the other 999 banks that are destined to close / merge and take active steps to prepare for sale in order to recognize the best return. To decide whether you may want to consider selling the bank, here is the main question to answer - What is your strategic advantage against other banks?

Before you say "service," "local knowledge" or "quality staff," consider none of these factors offer a true strategic advantage. All can be recreated in less than 3Ys by a competitor. Quality local staff can be hired and service can be trained. The same goes for any answers that are product related. Having the best remote deposit platform in the community is important, but unless you have a patent on it, it provides little in the form of long term protection.

Hopefully, the answer to the question revolves around a specialty niche, the expertise of which is hard to duplicate. Having the lending, underwriting, sales and marketing acumen around a particular profitable segment of the economy presents some modicum of strategic protection. Since most banks are more general in nature, the other way to build long-term franchise value is to expend resources building a definitive culture and brand. This aspect is often overlooked, but clearly defining who your bank is and why it appeals to the community, allows customers to easily answer the question, "Why you?" Community banks like Umpqua (OR), Frontier Bank (WA), First Interstate (MT), Woodforest Nat'l (TX), S&T Bank (PA), Armed Forces Bank (KS) and a host of others nationwide all have a definitive culture and brand that would take 10Ys to duplicate, if at all. Building a brand sounds easy, but if it were, more banks would do it. Building a distinct culture takes planning, resources, training and most of all, execution. It doesn't happen overnight, which is precisely why a superior culture will set your bank apart from the competition and help garner future franchise value.

The TCPP will serve as a catalyst to speed the evolution of banking. Not getting the capital may be a blessing in disguise, as it will serve to focus those institutions more on survival. Not all banks will receive the capital that ask for it. Those that don't should have a press release at the ready (in case word gets out) and time set aside for some deep soul searching.

BANK NEWS

17th Bank Closed

Freedom Bank (\$287mm, FL) was closed and transferred to Fifth Third Bancorp (\$130B, OH). Fifth Third acquired \$36mm in assets, all of the deposits and 4 branches in the transaction.

TARP Capital

The Treasury extended the deadline for non-public banks and said S corps, privately held banks and mutuals will also be extended. It didn't say when the deadlines might be, but staged dates around year-end are rumored.

FN/FH Preferred Fix

Regulatory agencies said they will allow banks to adjust their September 30, 2008, regulatory capital calculations for the tax effects from losses on investments in FN/FH preferred stock (to "ordinary" loss from "capital").

Credit Card Stress

Citigroup indicated in an SEC filing that it expects credit card losses may exceed "historical peaks."

Continued Backing

In an effort to address investor concerns about FNMA and FHLMC, FRB Chair Bernanke said gov't backing will continue.

Postponing Foreclosure

JPMorgan Chase said it will not put any more homes into foreclosure over the next 90 days, as it works to keep people in their homes. JP said it hopes to modify terms for 400k homeowners accounting for \$70B in loans.

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