WHAT YOU ARE MISSING DON'T SEE YOU IN MAY:

by Steve Brown

If you haven't signed up for our May Executive Management Conference in San Francisco on May 3rd thru the 6th you should - plain and simple. If you haven't, let us give you 2 great reasons.

The first is that the early bird conference rate goes up at the close of Sunday. We will not be extending it, because we are on track for selling out. We are in a recession, so why not save the $100 and register today?

The second reason is that, among the reams of useful information, one of the most important we plan to reveal is the answer to the age old branching question - is it better to build/buy a branch in a rural area or metro?

To answer the question, we took population data, overlayed zip codes and came up with a density function. We then sorted those zip codes by metropolitan, micropolitan/urban and rural areas. Finally, we overlaid a bank's footprint in order to classify them. We have analyzed more than 1,000 banks to provide a quantitative basis to help banks in branching decisions. Which strategy is more profitable over a 5Y period of time? Is it better to be all rural, all metro or some combination of branches? If a combination is best, what is the optimal mix? During the history of banking, most banks have started in rural areas and have migrated to metro areas due to population and asset size growth. However, if you are faced with that acquisition or plan to start another branch, which branch is more valuable? Is it better to dominate a rural market or compete in a deeper metro market?

The question is a difficult one to answer, as there are many variables. For starters, deposit rates are usually lower in rural markets. In addition, since a bank can come in and grab a significant market share, the domination helps by making rural markets less interest rate sensitive. Because of the lack of competition, customer acquisition costs are cheaper, but the sales cycle tends to be longer. Infrastructure cost is also reduced. On the other hand, command/control costs (management oversight) usually goes up. Despite what your experience has been, we can tell you that the economics of rural and urban branching has radically shifted in the last 5Ys with the advent of remote deposit capture, end-to-end imaging, teller cash recyclers, no-envelope ATMs and shared branch kiosks.

In looking at metro markets, talented employees, the life blood of a branch, are more plentiful. While costs are more expensive, productivity is usually higher and, over time, the deposit balances in metro markets tends to be larger and with greater growth (even in today's market). Credit is more diversified in a city; however, it is also more correlated to the general economy. Over the past 6 months for example, the total return on rural loans has vastly outstripped performance in metro markets.

You are going to want to come to our EMC conference because, to the best of our knowledge, we are the only ones that have looked at this equation in the last 5Ys (contact us if anyone knows different). Our findings just might give you a career worth of experience and provide your bank the competitive edge that is needed in these challenging times. We have many other reasons to come including an update on the economy/industry, what new products banks are using, deposit tactics, loan pricing/lending performance, loan workouts, TARP strategies and regulatory changes. Sign up today in order to reserve your spot: http://www.pcbb.com/2009Conf_Summary.asp

BANK NEWS

BofA

The loudest whistle in the dark award for this week is given to the head of the Bank's mortgage unit who said yesterday, "..Countrywide is really paying off for us. Thank goodness we have it."

TLGP Moves

After the FDIC advised the largest banks that fees for TLGP insurance usage may be going up by 25bp for banks and 50bp for holding companies, this week we saw a huge $30B in issuance.

Branch M&A

Great Western Bank ($4.3B, SD) has agreed to purchase all First State Bancorp's 20 CO branches from their First Community ($3.4B, NM) subsidiary. The purchase will include $444mm in loans and $477mm in deposits for a premium of $28mm.

New Systems

As demand for cash management tools and services increases, Citi is set to unroll a new system midyear analyzing payment systems between business clients and correspondent banks. The technology will function much like software embedded in the bank allowing clients to shift and select modules and allow even correspondent banks to run these tools as their own cash management system.

Russian Bank Lending

Interbank lending in Russia this week hit 20% - a sign that global credit risk remains elevated.

Sinking Wealth

Over 2008, the number of households with at least $1mm in net worth (excluding residence) dropped 27% from a record high of 9.2mm in 2007. The number with at least $500k in net worth and those with at least $5mm both fell 28%.

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