DODD FRANK VS. BANK TRANSFER DAY

by Steve Brown

Bank Transfer Day was on Saturday and it hurt. It hurt that we found very few community banks as part of the dialog. This comes on the back of a recent Treasury Department blog posting by Deputy Treasury Secretary Neal Wolin that explains the positive aspects of Dodd-Frank for community banks. Wolin's points were that between higher deposit insurance, capital requirements and fees, Dodd-Frank levels the playing field. Interestingly, the posting has met with huge outcry from many community bankers and bank trade associations making the point that Dodd- Frank crushes community banks with a needless regulatory burden. As these comments appear in the press and to the public, our point today that not only are these not helpful, but they are working against a current movement that is giving community banks an excellent opportunity to take a leadership position.

While Dodd-Frank does increase the regulatory burden for community banks, the Treasury not only has it right, but community banks need to further embrace that position similar to what the credit unions have done. This point was driven home to us when we say the participation in the press and on social media by the credit unions on how the CUs successfully crafted the anti-bank message to their advantage. The Move Your Money Project and Bank Transfer Day where individuals were implored to close their bank accounts and move the money to credit unions underscores our point. Bank Transfer Day alone had close to hundred thousand followers on Facebook and had about 80k participants in marches and protests over the weekend all sending the message that for profit banks are evil.

While Dodd- Frank does add additional costs, it has driven up cost at large banks to an even greater degree. Further, the extra 1-3 FTEs that most community bank will have to add to handle the additional regulatory burden, can easily be overcome with more emphasis on fee income or about $10mm of net loan growth. Not good, but not insurmountable either.

On the plus side, the higher capital and liquidity requirements of big banks will make community banking performance look relatively good. This will serve to attract cheaper relative capital down the road. Higher insurance levels have been a huge plus and the cost of that insurance has gone down for community banks relative to large banks, further adding to community bank's long run performance. As far as Durbin, Reg Q and consumer protection changes, it remains to be seen if this is a net plus or a net minus for community banks, but at the end of the day their negative impact will be negligible for smart banks. What Dodd- Frank did was to lay the groundwork for the current anti-big bank movement. Now whether you choose to jump on the bandwagon and market against large banks or not is a branding call, but it does provide an excellent opportunity to highlight our industry's high degree of local knowledge and superior customer service. In our opinion, all community bank employees need to be trained and given talking points on how to address the concerns that Bank Transfer Day and the Occupy Wall Street movement bring to light. Then, community bank employees, from the CEO to the cleaning crew, need to do what they do best - talk to the community.

The mistake would be to have shareholders, community leaders and especially employees, hear a bank complain about Dodd- Frank and leave everyone with the impression that we are part of the problem. Complaining about Dodd- Frank places the emphasis on our past and leaves many with the impression that we are helpless. Community banks have served this Nation well and need to shout how we are NOT the reason for Dodd- Frank and even embrace the legislation. Instead of spending resources licking our wounds, the current anti-bank sentiment presents a unique opportunity to help define our brand and gain back public trust to community banks. What we can't do is sit around and let credit unions have all the fun.

BANK NEWS

Closed (87 YTD)

Regulators closed 1) Mid City Bank ($106mm, NE) and sold it to Purdum State Bank ($20mm, NE). Purdum will immediately change its name to Premier Bank and gets 5 branches, all deposits and essentially all of the assets. Premier Bank will be led by Greg Stine, who is part of a Nebraska banking family going back to 1950. Stine created United Nebraska Bank, a statewide banking network that was sold in 2004. 2) SunFirst Bank ($198mm, UT) was sold to Cache Valley Bank ($296mm, UT). SunFirst was embroiled in legal action against a philanthropist tied to the bank, who reportedly faces a Federal lawsuit alleging he and others took part in an Internet payment-processing scheme that charged consumers for products they did not purchase. Cache gets 3 branches, all deposits (except for $15mm that may be subject to external litigation involving SunFirst and brokered deposits) and entered into a loss-share transaction on 65% of assets.

M&A

Kentucky First Federal Bancorp ($226mm, KY) will acquire Central Kentucky Federal Savings Bank ($131mm, KY) for about $10.8mm or roughly 0.83x book.

Too Big

On Friday, the Financial Stability Board at the G20 named 8 US institutions as globally systemically important financial institutions (G-SIFIs) that will be required to hold additional capital starting in 2016. These institutions are BofA, Wells, BNY, Citi, Goldman, JP, State St., and Morgan Stanley.