

THE GOLDEN RATIO BANK

by [Steve Brown](#)

You have heard of March 14th as Pi Day - well, today is Phi Day or June 18th. This is the calendar date equivalent of 6.18, otherwise known as the Greek letter "phi." Phi is also known as the basis of the Golden Ratio, as it is the limit factor between any two numbers within the Fibonacci sequence. The Golden Ratio is an irrational number (a never ending or repeating number similar to Pi) that is roughly 1:1.618. Put another way, Phi allows for balanced spacing between a growing set of numbers or proportions. For instance, let a plant grow and it likely ends up growing in proportion to the Golden Ratio. This is why Phi is also called the Golden Mean or the Divine Proportion. Not only does the Golden Ratio possess a number of amazing mathematical properties, but it also shows up throughout nature and governs flower growth, universe formations and the shape of hurricanes. Proportionally, the ratio is called perfect, as it has been used in art for centuries. The ratio is used in the Parthenon and the Great Pyramid. Da Vinci used it in the Mona Lisa, Le Corbusier in his architecture and Debussy in his music. Twitter used the ratio not too long ago for a redesign of their website. The Golden Ratio is also found naturally in banking as well. It can be argued that it represents the ideal: return on assets, net loans to total assets, equity to non-interest bearing deposits, a maximum cash dividend by net income and a safe factor to cover current defaults for a loan loss allowance buffer. Use the Golden Ratio to geometrically grow profitable customers through marketing, technology and branching and you find out that return on assets grow nicely at a 1.618% factor and if you multiply by 10, assets will also grow around 16.18% (not to mention return on equity as well). Keep those ratios in line and the outcome will be a bank of perfectly pleasing proportions. The Golden Ratio bank would not only consistently be in the top 1.618% of all banks, but also have the beautiful aspect of being self-contained. By hitting all the aforementioned performance targets and growing customers in Golden Ratio proportions, operations would produce enough capital to throw off a healthy dividend and maintain healthy capital levels, without having to tap outside investors. While we caution readers not to get too crazy with the Golden Ratio, as it is just one of many growth proportions that works for a bank, it has the advantage of giving boards, management and employees a set of easily identified and memorable objectives. Like the Golden rectangle whose sides are 1.618x its height, the Golden Ratio bank is proportional, stable, pleasing to look at and architectural poetry. Given that it's Phi Day, we thought you might like a different way to look at building a bank.

BANK NEWS

Closed (31)

Regulators closed: Farmers Bank of Lynchburg (\$164mm, TN) and sold it to Clayton Bank and Trust (\$620mm, TN). Clayton gets 4 branches, paid the FDIC a premium of 0.10 percent to assume all of the deposits and will purchase essentially all of the assets (no loss share). Security Exchange Bank (\$151mm, GA) and sold it to Fidelity Bank (\$2.2B, GA). Fidelity gets 2 branches, all of the deposits and entered into a loss-share transaction on \$102.8mm of assets (68%). Putnam State Bank (\$170mm, FL) and sold it to Harbor Community Bank (\$182mm, FL). Harbor gets 3 branches, assumes all of the deposits and entered into a loss share transaction on \$112.3mm of assets (66%).

Leasing Capital Hit

FASB and the IASB have agreed all leases with a term of one year or more would be recorded on the balance sheet, a significant change from current practice where most leases are off-balance sheet.

Competition

Regions Bank said it is starting to roll out an innovative account package for customers that include RDC and a prepaid-linked savings account. Features include: no monthly fee (as long as \$500 is deposited monthly via direct deposit); no minimum balance requirement; a 1% annual savings bonus (based on a consistent monthly deposit of at least \$5); a \$1 bonus in every month that at least \$5 is deposited and no withdrawals are made.

CFPB

The agency said it will look into the financial abuse of the elderly, particularly reverse mortgages and will collect comments from the public until Aug. 13th.

Bad Pitch

RBS Citizens (\$106B, RI) filed a lawsuit against former star big league baseball pitcher Curt Schilling seeking repayment of \$2.4mm in loans made to a video game company he backed. The company, called 38 Studios, has filed bankruptcy and owes more than \$150mm to creditors. Schilling personally guaranteed the debt.

Guilty

Former Goldman Sachs director Rajat Gupta was convicted of three counts of securities fraud and one count of conspiracy, for his role in providing secret stock tips to hedge fund manager Raj Rajaratnam. Gupta faces a possible sentence of 25 years in prison.

Profitable

Corporate profits as a percent of GDP are running at about 7.6%, the highest level since 1948. Primary drivers include the benefits of lower interest rates and its effect on margin expansion (some estimate it is 40% of the lift), as well as lower taxes (loss carry forwards & government incentives).

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