

AN INTERNATIONAL EVENT

by [Steve Brown](#)

At a recent party supporting the performing arts, we were struck by the number of community bankers in attendance. This event specifically supports a major regional festival that is a big driver of commerce and tourism in the area, so the event brought out many of the important business people in the community. We talked to quite a few community banker friends of course, asking them how business was going and the areas of greatest concern to their banks right now. This part of the country entered the economic downturn somewhat later than other places, but the impact is pretty standard with other geographic areas. Most bankers agreed was bumping along, but not showing major improvement. Primary concerns were margin compression due to the low interest rate environment, heavy competition over the very few qualified borrowers and difficulty generating earnings in general. Credit problems were mostly handled, so this was a brighter spot. The event also provided an opportunity to chat with business owners to see where they were on the spectrum. In that regard, one conversation stood out as both an example of a smart strategy to build business with a specialized product and what should translate into an opportunity for bankers. The business owner has a retail shop in a small town, selling museum-quality craft goods. This is obviously very high end, but it is a product line very much related to the local culture. As the number of tourists has declined in his retail store, this business owner came upon an opportunity to sell first through a French retailer and then a Japanese subsidiary of the same retailer. He seized upon the opportunity and has since built a substantial international business, both distributed by foreign retailers and through the internet. The business owner said he sells more in Japan than anywhere else, despite a slow local economy likely driven by relatively attractive currency levels. The opportunity for his community bank lies in the transaction of his international transfers. Certainly there are new regulations regarding disclosures for international transfers, but that should not dissuade you. Leaving the business to the bigger banks isn't a good option because you can't get them back easily and the large banks will lock the customer down even further as they engage in heavy cross-selling, as sure as the sun rises and sets. The internet has simply made the world smaller and this type of good customer is exactly the type community bankers should want. International activities can also produce fee income, so they are certainly worth a look. Rates are low and the best prediction now is that it will remain that way until 2015, so earnings will be difficult to generate. International services provide a good opportunity for community bankers to earn fee income and we can help. Our fully- outsourced solution and sophisticated team of experts is actively helping community bankers navigate the regulatory landscape and capture more fee income and they can do the same for you. Usually when people think of the international businesses, they think of manufacturing or software. That is why we wanted to point out this business can come from anywhere. Driving by this retail shop, next to the cow pasture, few would imagine it to be a sophisticated international business. By understanding your small business customers and what they do, you can focus your efforts on their needs as you continue to build your business no matter the environment. Give us a call or email to find out how easy it really is to offer your customers international services and book more fees for your bank.

Related Links:

[PCBB 2013 Executive Management Conference](#)

BANK NEWS

Closure (4 YTD)

Regulators closed Frontier Bank (\$259mm, GA) and sold it to Heritage Bank of the South (\$1.1B, GA). Heritage gets 9 branches, assumed all deposits and entered into a purchase and assumption agreement with the FDIC.

Protecting Profit

Analysis by Bloomberg finds the largest US companies expanded offshore parking of profits by \$183B in the past year, a 14.4% increase over that period. Overall, analysis by JPMorgan Chase estimates all US companies have \$1.7T in accumulated offshore profits parked in low-tax countries.

For Sale

The CFO of Wells Fargo said at an investor conference that the Bank is considering selling its mortgage servicing rights, but is not in any rush. Other competitors have already done so.

Regulation

The SEC proposed new rules that would require key exchanges and clearing agents that meet certain volume thresholds to have better business continuity plans to handle system resiliency, security, trade flow and recover in a disaster.

Competition

A survey by Ernst & Young finds 5% of consumers planning to change banks increased 5% last year. Meanwhile, customers with one bank relationship fell 10% and those with 3+ relationships increased 11%.

Branch Premiums

SNL analysis finds the deposit premium paid for branches in 2007 was 7.8%. It has dropped sharply since then, falling to 5.0% in 2008, 3.2% in 2009, 3.3% in 2010, 3.2% in 2011 and 2.2% in 2012. The primary reason for the downward pressure - large banks have been shedding branches, customer behavior has moved toward online and mobile and banks in general are awash in deposits.

Industry

An FDIC speaker at a conference indicated in their speech that 70% of all banks under \$500mm have been profitable every year for the past 25Ys.

Sale Multiples

SNL reports M&A transaction multiples for large banks (excludes deals less than \$50mm or that fell through) were 1.42x in 2012; 1.43x in 2011; 1.17x in 2010; 1.48x in 2009 and 2.21x in 2008.

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