No Horsing Around When It Comes To Funding

by Steve Brown

There was a story of a horse that lived in a nice pasture in South Carolina with a couple of shade trees and green grass. It broke out of its enclosure and hoofed it down the city streets to the nearest Olive Garden. There it patiently allowed itself to be recaptured by local police, but alas, there were no bread sticks for the horse. It just goes to show that no matter what an individual spends the day doing, eating grass in a nice place or slugging it out over the books of the bank, there is always the desire to spend more time doing something else.

Along these lines, a recent American Banker survey asked 75 CFOs what they spent their time doing vs. what they would rather do if they had their druthers. While we found it odd sitting on a beach didn't make the cut, the CFOs nonetheless reported that they would like to spend more time thinking about the future and less time reporting on what has already occurred. Given all the changes afoot in the industry, it is refreshing to hear executives want to focus more time on strategic thinking!

Certainly, reporting on the past is inherently a part of a CFO's job. After all, most analysis relies on bank-specific historical information, whether it is to be used in calculation of ALLL, stress testing, board reporting, or for numerous other functions. This makes sense when you consider that most bank processes are designed around the past in order to try to predict what could happen in the future.

The CFOs reported in the survey that their primary functions (corporate governance, budget management, financial analysis, investor relations, regulatory compliance and strategic advisory) had mostly retained the same level of importance in their day's work as they had in the past. But two functions that the group said had increased in priority were regulatory compliance (68%) and budget management (48%) - although risk management was also cited as an increasing focus. The CFOs felt that risk management efforts were time well spent, in that their banks would be better prepared the next time an economic downturn or local adverse market conditions occurred.

One area that was not mentioned by the group (except in the context of liquidity stress testing and regulatory liquidity concerns) was deposit pricing. This was a little surprising to us, in that most banks have very little control over their loan pricing in the current competitive environment. Given that deposit pricing is clearly one of the most effective (and controllable) ways to improve earnings, revisiting this makes sense.

We work with lots of banks on improving their funding costs and have found that one area that can bring the most improvement to the bottom line is bringing down the bank's cost of funds through more intelligent management of deposit pricing and product sets. The deposit pricing committee in many banks reviews deposit rate survey reports and what is occurring with the competition. The problem with this is that competitor banks may not be managing these costs effectively, or may have a different business model, so this tactic could lead your bank to make decisions that are not in your best interest. The funding needs and pricing practices of other banks should not dictate what your bank does. Rather, a much more productive process is to establish your bank's funding and liquidity needs and then ensure that actions taken enhance the nature of your bank's business model.

There is help available. PCBB's Liability Coach is a consulting service designed to help community banks understand and optimize funding strategies. Many banks find it easier with outside assistance to be certain that funding and pricing decisions are based on longer term strategies and not just in reaction to competition. In addition, our approach can free up some time for a swamped CFO. Contact us for more information on the Liability Coach, before your CFO decides to wander away from the pasture to contemplate the future.

BANK NEWS

M&A Activity

1) Scituate Federal Savings Bank ($293mm, MA) will acquire S-Bank ($199mm, MA) for an undisclosed sum. 2) WestStar Bank ($1.1B, TX) will acquire First National Bank ($338mm, TX) for an undisclosed sum. 3) Stifel Financial Corp (MO) said it will acquire Barclay's US wealth and investment management unit for an undisclosed sum. The unit manages about $56B in assets and has 180 financial advisors.

Branch Closures

Financial Brand conversations with executives of some of the largest banks in the country found that 50% to 80% of branches that should be closed (due to financial considerations) are not closed due to regulatory or public relations issues. It costs up to an estimated $500,000 to close a branch.

Retail Lending

Dollar Tree has reportedly reached an agreement to sell 330 Family Dollar stores as part of its acquisition to PE firm Sycamore Partners for an undisclosed sum. Sycamore owns Dollar Express.

Rate Hikes

The CEO of Wells Fargo said at a recent conference that he "would anticipate a 25bp rate hike in September" and then nothing for the rest of the year. We will have to wait and see, but interesting nonetheless.

Q2 Economy

The latest survey by the National Association for Business Economists (NABE) projects economic growth for this year will be 2.4%. This compares to Fed projections of 2.3% to 2.7%. NABE economists also projected the Fed would begin raising rates in Q3.

Housing

The Wall Street Journal reports that fewer people have enough savings or income to purchase a home, resulting in more renters and a supply shortage of multifamily housing. It is projected that ownership rates could decline for the next 15Ys.

M&A Multiples

Citing data from SNL Financial, Bank Director Magazine reports the average price to tangible book value for bank and thrift acquisitions nationwide was 1.50x through Q1. That compares to 1.41x (2014); 1.24x (2013); 1.19x (2012); 1.09x (2011); 1.19x (2010); 1.15x (2009); 1.71x (2008); 2.30x (2007); 2.44x (2006) and 2.29x (2005).