

Sell...Hell No! **by Charles Wendel**

Last time this newsletter focused on why banks should consider selling NOW. Among the reasons: growth opportunities are limited; strong returns on equity will remain illusive; the shift to millennials increases the uncertainty and volatility of the customer base; the regulatory environment is more difficult to manage; many banks are operating with an aging management team; and, costs are rising related to technology, compliance, and other areas, Add these to operating within a low interest rate environment. And, just this week a KBW analyst mentioned on CNBC that banks might need to be \$5B+ in assets to have the scale to handle higher operating costs. One positive factor pushing toward sale involves a more stable economy and an eager group of potential buyers causing prices to show some rebound from recent years.

With all the reasons to sell, why should banks continue to fight the battles that the above list summarizes? The factors leading to consider sale center on quantitative issues and difficult economics, while many of the reasons to remain in business seem to focus mainly on multiple qualitative and “softer” issues, among them:

Stable operating environment. While we are hardly in a fast growth economy, stability and some slow growth have returned. The pressure on banks to sell or retrench resulting from deteriorating loan portfolios has largely disappeared. To a significant degree, stability has replaced volatility. As portfolio quality remains good, some of the near-term pressure is off for many banks.

Smaller but steady returns. Yes, revenues are growing slowly and returns on equity and assets are lower than before the last downturn. That said, profitability has returned to the industry and while hardly at stellar levels it may be “good enough” to justify a bank’s continued existence. At many banks expectations have adjusted downward from the old goals of 15% ROE and 1% ROA.

Community support. Many, if not most of the leaders of community and regional banks walk the talk; they say they want to support the community and its needs and they actually focus on doing so. These banks have a purpose that goes beyond the economic. I have had the opportunity to speak with dozens of bankers who value their roles in their communities and believe in their hearts that they have a responsibility to serve the needs of their geography. To them money and returns play a lesser role than the social and local support goals they pursue, a valid reason for continued operation.

Local employment. The role of banks as a critical source of local employment exists around the world, whether in the U.S. or India. Boards often play an active role in this area with a fair amount of “back door” conversations whenever top management tries to exit an individual employee or group they no longer believe fit in. These banks avoid the type of wholesale dismissals that have become part of

some big banks cultures. The loyalty that these banks show to employees and vice versa should not be dismissed.

A coming election. While we are still almost two years away from a new administration, bankers are mentioning this coming change with anticipation and hope in their voices. In recent years, the locally based First National Bank of Wherever has been lumped together with the huge institutions that almost took down the U.S. economy. And, while various regulators proclaim their support of smaller banks, at the same time these regulators are increasing the hurdles all banks need to jump over to meet more complex and expensive regulatory requirements. But, bankers believe that different leadership may be coming in 2016 and with it may arrive some regulatory relief. If such a change does not occur, look for more banks to sell shortly after the next election.

“Exciting” operating environment. Some of the bankers I know have been revitalized by the challenges of the current banking environment. These bankers realize that they need to manage with greater speed and decisiveness than perhaps ever before. They are making the tough decisions regarding people, organizations, and channels and are seeing positive metrics and a changed, more sales and customer focused culture. Sale is the furthest option from their minds, in part because they are seeing their impact and having too much fun.

Tomorrow is another day. Yes, today may be a great time to sell, but it is not the only time available to do so. With the continued stability in the economy, banks may be attractive sale candidates for the next several years. Banks have some time to determine whether to sell and develop their sales strategies.

Final thought. However, sooner rather than later, banks should prepare an analysis of their bank that they can provide to potential buyers. This memo should capture the bank’s view of its uniqueness and best qualities as well as benefits to a buyer. In addition management and its Board should develop a checklist of those characteristics that they view as critical in a preferred acquirer as well as a list of preferred buyers and those to be avoided. Proactively considering sale and completing some of the basic spadework required to prepare for it should be part of most bank’s required activities.