#### **AFP**<sup>®</sup> Association for Financial Professionals® **Annual Conference**

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ORIGINAL ESSENTIAL UNBIASED INFORMATION 

#### **Don't Spread the Peanut Butter Too Thin**

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#### **Overview**

- 1. Bank Market Trends
- 2. Bank Selection Which Ones?
- 3. The Bank's Perspective
- 4. Consolidation vs. Diversification How Many?



#### **1. Bank Market Trends**

"A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain."

- Robert Frost





## **Types of Banks**

	Local	Regional	Global		
Description	Branches in a few states	10+ states	International capabilities		
Examples	Bank of Texas, Amegy, Sterling	US Bank, PNC, Regions	BofA, Chase, Citi, Wells Fargo		
Benefits	Flexibility, fast decision making	Fits most needs	Diverse product offering, branch presence		
Limitations	Small loan size	Limited footprint and capital markets	Bureaucratic		



### **Trend of Banking Consolidation**

TRAVELERS GROUP	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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Association for Financial Professionals\*

#### **Increasing Regulation from Recession**

- Over 30 regulations
  - Varied guidelines and interpretations
- TARP
- Restoring American Financial Stability – Financial Reform Bill







# **Trend of Globalization**

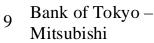
#### **TOP 10 BANKS BY MARKET CAPITALIZATION**

#### 1999





- Wells Fargo 7
- UBS 8



10 Chase Manhattan

#### 2010

- Industrial & Commerce Bank of China China Construction Bank 3 HSBC 4 JPMorgan Chase 5 Bank of America 6 Wells Fargo Agricultural Bank of 7 China Bank of China 8 9 Citigroup
  - 10 Banco Santander

Source: Financial Times



### **Bank Market Trends - Summary**

- Change is constant
- Take time to develop banking relationships





#### 2. Bank Selection







# **Top 10 Things to Consider**

- 1. Relationship
- 2. Industry
- 3. Needs vs. products 8. Perception
- 4. Geography
- 5. Culture

7. Economics

6. Risk

- 9. Fatigue
- 10. Stability of bank





### **Bank Selection - Summary**

- Step 1: Understand your needs
- Step 2: Find banks with matching strengths



 Goal: Make a Love Connection



#### 3. The Bank's Perspective







## **Risk Adjusted Return on Capital**

- Capital allocation and performance evaluation
- Customers assigned a rating of 1 to 10
- Based on 13 factors
  - Seven financial (80%)
  - Six non-financial (20%)



### **Financial Factors**

Factor	Weighting
Size (Revenue)	13%
Profitability	18%
Liquidity	6%
Capitalization Ratio	15%
Interest Coverage	6%
Operating Leverage	13%
Net Sales Growth	8%
Total Weight	80%



### **Non-Financial Factors**

Factor	Weighting
Default History	3%
Forward Warning	. 4%
Economic Cycle	3%
Performance vs Projections	4%
Performance in Adverse Times	3%
Industry Volatility	4%
Total Weight	20%





## Why Banks "Fire" Clients

- To exit a business segment
- "Lender fatigue"
- Inadequate performance
- Geography
- Capital reallocation



### **The Bank's Perspective - Summary**

- Banks have a choice on where to invest their money
- Must earn an adequate return for their risk
- Understand how your company will be evaluated





#### 4. Consolidation vs. Diversification





## **Reasons for Consolidation**

- Important relationship to the bank
- Potential for better pricing
- You don't have enough to spread around
- Lower transaction costs
- Easier to manage bank relationships



## **Reasons for Diversification**

- Banks have different strengths
- Risk mitigation through multiple bank relationships
- More banks = More capital



# **Consolidation vs. Diversification -Summary**

- There is no right or wrong decision
- Depends on needs and risk tolerance





### Don't Spread the Peanut Butter Too Thin



#### ... or Should You?



#### Top 10 Things to Consider When Selecting Banking Partners

- Relationship Do you have a good working relationship with decision makers at the bank?
- 2. **Industry** Does the bank have an intimate knowledge of the industry in which you operate, and does the bank lend to others within the same industry?
- 3. Needs vs. products Does the bank have the products or service offerings that you require? (i.e. card solutions, leasing, M&A advisory, merchant services)
- 4. **Geography** Is the bank well established in your footprint with retail branches and local relationship managers?
- 5. Culture Does your company and the bank share a similar corporate culture and values?
- 6. **Risk** How does the bank view your company and the management team? Do they view your industry as being particularly risky? Will they be with you for the long term?
- 7. **Economics** Are the financial terms of the loan (lease, swap, etc.) favorable compared to alternatives?
- 8. **Perception** Does the bank have a reputation of being a lender of last resort?
- 9. Fatigue Does the bank ask too many questions and drain company resources?
- 10. **Stability of Bank** Is the bank an acquisition target or on the verge of financial collapse?