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Buying Failed Banks: Still Many Opportunities, But Increasing Costs

The present economic downturn first started affecting banks in 2008, when the pace of bank failures accelerated significantly over prior years. The slowing economy facilitated increased unemployment, a decline in real estate values and other trends that proved fatal to more than 250 banks. But even as the down economy has impacted nearly every bank in some context, it has also created an opportunity for low-cost acquisitions.

FDIC-assisted purchases of failed banks have allowed many banks to expand their branch networks at a lower cost than de novo expansion or traditional open-bank mergers. With almost 800 banks on the FDIC's troubled institution list, opportunities for failed-bank purchases will continue to abound. However, before pursuing FDIC-assisted transactions, potential acquirers should address several critical considerations. *(continued on page three)*

If you're not visiting your branch network to enforce polices, housekeeping and marketing messages, things can quickly go astray.

Do You See What We See? Taking a Closer Look at Your Branches

Bancography visits hundreds of branches every year. Our services, from branch analysis to marketing research to brand strategy, direct us to examine both our clients' brick and mortar and their competition. It's a wonder we don't decorate our homes with teller lines to give them that familiar look and feel. The branch is very much alive and viable despite the dire prediction of its demise a few years back. In fact, the branch is your institution's most important marketing vehicle. So in the spirit of pointing out untapped potential, we've outlined our top 10 areas of opportunity for branch engagement, marketing and sales — opportunities that we see missed everywhere we go.

Windows. Windows are usually the institution's first chance to make a branding or promotional statement (we're not addressing permanent building and property signage — far too many local codes and ordinances). All we need to do is study the retail industry for how to effectively use windows. Windows were the original retail merchandising and display opportunity to sell goods to pedestrians on the street. Studies show that most people will glance at a retail window, but when they pass by a financial institution, it's eyes ahead or down. Why? Usually because there's nothing to see. Closed blinds are the most common "display" in the financial branch world. Today there are dozens of display products and materials specifically designed for windows, many of which allow you to display a message externally, yet still be able to see out the window. Use those windows!

Drive-up. You always want to sell to a captive audience, and the drive-up lanes are the perfect opportunity for your promotional messages. Banner stands, window clings, weatherproof poster frames and ATM surrounds are standard fare. But look around: are there other opportunities to market your institution? Wrap a pole with a graphic. Put your web address on the tubes. Think outside the box on this one, with one caveat: keep it simple.

Entry/vestibule. If your institution enjoys a buffer between the exterior and the interior of the branch, count yourself lucky. Studies show that this decompression zone helps the visitor acclimate upon entering the branch. It's the perfect place to make your customers feel welcome, warm and fuzzy — in other words, use soft brand messages. Additionally, this area can be a great opportunity to converse with them as they leave.

Engagement strategy. What do you want your clients to do when they walk in a branch? If you don't know, how will they pick up on it? Most Bancography clients tell us that they want to greet their visitors. How? From a meet/greet station? From the teller line? Size and layout of the branch dictates much of this configuration, but there are ways to provide a consistent strategy across your network. The most common and unfortunate misstep we often see is the empty greeter desk. Built in larger staffing times, many of these are now uninviting barriers to doing business. If you're not going to staff the desk, get rid of it. A great solution for staffing a greeter area during busy periods is to construct a small round café-height table that someone can stand beside. When the table is not manned, it doesn't look abandoned. You can dispense literature from it or equip it with technology for online banking or demos.

Wayfinding. Where to go? What to do? Beyond heading straight to the teller line for a transaction, most people don't have a clue what purpose those offices, cubes and desks serve. They're even hesitant to sit down in a waiting area for fear of being ignored. Help them out by pointing the way to products, services and navigable areas of your branch. Again, look to any large retailer for *(continued on page two)*

Branch Staffing: A Life Cycle Approach

All retail branches are not identical, so why do some institutions subject all branches to the same staffing decisions? At some point in the life cycle of a branch, a staffing model using quantifiable data is important, but there are times where the standard model is not appropriate and force-fitting all branches into the same staffing model can have damaging effects. As a branch grows and matures, financial institutions must migrate from a sales-to-service staffing approach and vice-versa. This article discusses the phases of a branch's life cycle and how to right staff within each of these phases.

Six weeks prior to opening – Bancography's clients have heard us say that the most important person to the successful launch of a new branch is not the CEO or the CFO, but the Human Resources Director. The initial staffing decisions at a new branch will carry impacts long after the grand opening. After construction has started, hire and deploy branch sales staff six to eight weeks prior to the scheduled open date, so the staff can begin to develop markets in advance of the branch opening. Involving Human Resources early in the branch planning process insures proper attention to staffing and sales training.

In determining the types of positions and number of staff, pay attention to the demographics within the trade area and the primary reason for building the branch (e.g., a goal of offloading transactions from other branches yields a more service-oriented staff; a goal of capitalizing on a growth market through client acquisition dictates a strong sales staff). A typical 3,000 to 3,500 square foot free-standing branch in a suburb will open with a staff of four to six employees; one branch manager, one to two customer sales representatives, a head teller and one to two tellers. But an office in a developing market can open with a smaller staff focused on client acquisition, with just a manager and two to three universal agents cross-trained for sales and service.

Grand opening (first six months) – In the first months of a retail branch's life when transactions are low and sales is the primary focus, the new branch may borrow one or two sales staff from nearby branches or from the pooled staff. The extra help will allow for additional cross-training and for the representatives to spend more time with each new customer. Using mentors for new staff members (both sales and service) will reduce training time and give accountability to the sales process. From a management perspective, another staffing option is to co-manage a new branch with the nearest full-service branch, thereby saving personnel expenses until the branch grows to at least $25-30 million in deposits.

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Accelerating (Six months – three years) – The novelty of a recently opened branch will eventually subside and the branch will transition into a typical retail branch environment. Between one and three years of age, deducing staffing requirements becomes more scientific as the institution gathers history about transactions and account openings. The lines between sales and service become more blended as the branch ages, and staffing focus should reflect the need for generalists rather than specialists. Quarterly or semi-annual reviews of staff levels should be added, since customer volumes can increase rapidly in this phase. This is the phase when staffing models should first be applied, with positions determined according to benchmarks such as 18-20 transactions per teller FTE.

Maturing (Three to five years) – As the branch progresses toward maturity, its staffing levels will stabilize and there should be very few changes unless transactions show drastic increases. Typically, volumes will normalize in this phase and the focus of sales versus service will be more evenly distributed.

Established (Five years or more) – Beyond the five-year mark, established branches can be categorized as operating in either growth, stable or declining markets. Each has distinct staffing needs.

Growth markets – Sales should remain the priority in growth-market branches. The branch will likely include multiple lines of businesses for convenient referrals (wealth management, mortgage, etc.) and there may be a need for a dedicated business banker. These branches are often the hub *(continued on page four)*

Do You See What We See? *(continued from page one)*

signage cues. The best stores are designed for the customers to find their way to the products. In busy times, directional and instructional signs become extra personnel.

Teller line. Hands down the most abused area in the branch is the teller line. As a magnet for clutter, it is the toughest area to enforce good housekeeping policies. It seems every notice, policy, announcement and community bake sale flyer gets taped to the teller line. Throw in hand-made decorations, personal touch items from the tellers, those pesky regulatory mandates, outside third party vendors and messages from marketing and you've got a mess greater than a teen's bedroom. Three items belong on the teller line: small, tasteful, regulatory mandates in permanent fixtures; teller names in matching fixtures; and marketing messages. Follow these three guidelines and you'll actually see your teller line again, and so will your customers.

Promotional goods. Becoming increasingly popular again, promotional giveaways present a great way to secure new business. Displaying the items in the branch for visibility and increased incentive makes sense. Haphazardly placing them around the branch does not. Designate an area, table, kiosk or other fixture for the promotion and utilize effective signage to clearly explain how to obtain the goods.

Community messages/hand made signs. We addressed these items briefly in the teller line discussion but didn't offer suggestions on what to do with them. It's very important to support your community, charitable efforts and local business partners, and displaying the associated messages is integral to that support. Just remember to contain everything in one area. The simplest solution is to use a bulletin board. The downside to this approach is lack of control over the postings and visual arrangement. A better option would be a controlled display behind glass and lock so that the designated branch associate can maintain the look and validity of the messages.

Buying Failed Banks *(continued from page one)*

The price of FDIC-assisted transactions is increasing. In the initial term of the economic slowdown, buyers were acquiring failed banks for zero or near zero deposit premium and with loss-sharing with the FDIC of more than 90%. But in recent months, deposit premiums have increased to as much as 1.5%, while in one recent transaction loss sharing fell to 50%. The price increase is a result of at least three factors: the pool of potential buyers has increased, as the FDIC is now welcoming bids from foreign-owned banks and private equity firms; with the experience of so many closures, the FDIC has improved its negotiating knowledge; and with many closures detectable months in advance, banks have longer lead time in which to assess franchise value and prepare accurate bids.

The lower cost of FDIC-assisted transactions is appealing, but since buyers have no opportunity to speak with the potential target bank, banks must carefully assess several factors when evaluating an FDIC-assisted transaction:

How does the target franchise align geographically with our bank's network? The FDIC has not mandated geographic continuity, awarding a bank in Florida to a Minnesota-based bidder, and a bank in California to a North Carolina-based bidder. For banks in low growth markets, this environment presents an intriguing option to obtain a ready-made franchise in a higher growth market. But before bidding outside your bank's core markets, consider how non-contiguous markets would affect the company's ability to deliver leadership, operational support, sales training and marketing.

Alignment with target demographic segments. Unlike a traditional bank merger, there is no opportunity for on site due diligence in an FDIC-assisted transaction, leaving bankers to speculate as to how an integrated product offering might fare. Visit the target bank's branches and web site and build a preliminary map of lead checking products into market segments. Does this institution emphasize similar segments? Would your marketing and advertising prove appealing to the target bank's core segments? If not, your bank may risk significant attrition, negating the benefits of the purchase.

The compatibility of corporate culture is critical in the success of any merger. Many institutions on the FDIC's troubled bank list landed there for a reason: over-reliance on brokered funds or high cost CDs; or a decentralized credit process with few checks and balances. If a bank funded itself by paying top of market rates, its sales staff is likely less skilled in needs assessment and relationship cultivation than your bank's sales staff. Similarly, loan officers with unlimited autonomy may protest a more standardized system and defect, taking key clients. Network in your community to learn about the target bank's culture. Consult with any employees who previously worked for the target bank and with your community affairs and marketing officers to see how the target presented itself in the market. Differences in sales culture, community relations and management style could all impede the post-merger success of the combined bank.

Readiness for conversion. The greatest difference between an open bank and a failed bank purchase is the lead time between announcement and merger. In an open bank transaction, the merging banks have several months for operational preparations; in an FDIC-assisted transaction, the transition is instant. If your institution is considering a failed-bank purchase, it must be ready to run the acquired bank the day its bid is approved. It is therefore critical for support departments such as the call center and operations to prepare action plans for the immediate post-conversion period.

One benefit unique to FDIC-assisted transactions is the ability to put unwanted branches back to the FDIC within 90 days following assumption of the failed bank. Buyers have the opportunity to decline buildings that may overlap current facilities, have untenable leases or book values, occupy suboptimal locations or are over/under-sized for their markets. This luxury differs sharply from open-bank mergers, where buyers must accept all branches, regardless of cost, size or quality. Of course, any branch closure, including an FDIC put-back, risks attrition. With a limited window in which to declare put-backs, bankers must evaluate keep/close decisions in the earliest stages of the bid process. The put-back option gives banks and credit unions not pursuing FDIC transactions reason to still monitor this market, since branch put-backs due to overlap can leave viable branches available at favorable terms as the FDIC seeks to dispose of the put-back branches.

With the economy still uncertain, it is likely that the FDIC will continue to seize institutions for at least the next year. But with increased knowledge on all sides of the transaction and a more competitive bidder pool, prices will continue to increase, rendering it critical that banks weigh all impacts of an FDIC transaction before deeming it a preferable investment over de novo branching or traditional open-bank mergers.

Digital signage. Or, as everyone says, "flat screens." Clearly all the rage, digital signage is everywhere. As well it should be, because used correctly, digital messaging is a highly effective selling tool. But sadly, most flat screens are installed and forgotten, tuned to Headline News or some other cable network. It always amazes us the number of signs that are simply not powered up. Why? Because it takes a lot of content to keep the messages new, relevant and motivating. And those messages should display only your content, not a television network's. It's always embarrassing when your competitor's television commercial plays in your lobby. Digital signage deserves a future Bancology article of its own, but suffice it to say that most branches have it in the wrong place, at the wrong height, with the sound turned on and running someone else's content.

Point-of-sale messaging. We've now arrived at the most critical component on our list. If digital signage deserves its own article, point-of-sale messaging deserves its own book. The biggest issue with point-of-sale is too much content. Most of our clients treat a poster as if it were a newspaper ad, when if fact it should be handled as a billboard. We call posters *indoor outdoor*, and the same rules of engagement apply: keep the messages to five or six words, or less! Do you really need your logo? Aren't the viewers of your message already inside your branch? Message hierarchy and placement are additional critical factors. Your messages should unfold in a story to your clients as they navigate your branch. Effective promotion should generally follow the "announce, amplify, explain" approach: announce the promotion in a few words on a banner, window or poster; amplify the information on a counter card at the check writing desk or teller line with a few more details; provide full explanation of the promotion in a brochure or take-one slip. You should also identify and designate the various selling zones of your branch. Then match up the appropriate message content with each: brand, product, promotion, community, etc. And please don't tape your point-sale signs to walls, windows and other surfaces. Invest in a branded merchandising system.

You probably know about most of these opportunity areas already. But if you're not visiting your branch network to enforce polices, housekeeping and marketing messages, things can quickly go astray. Missed sales opportunities will abound, which no one can afford to lose. But enough of this, we have branches to visit. Maybe we'll see you in one soon.

If you would like Bancography's branding expert John Mathes to audit your branches, contact him at (770) 360-5710 or john@bancography.com.

Branch Staffing (continued from page two)

branches in a hub-and-spoke branch strategy. The branch manager must be a strong calling officer who spends more time out of the office on business development than in the office addressing operational issues. The service staff should be experienced and have the authority to resolve most daily issues.

Stable markets – Branches located in stable, traditional markets will most closely align with the sales and service benchmarks utilized at your institution. Most of these branches will grow their balance and customer bases by only a few percentage points each year, if at all. Yet because these are the most common branches, the mature stable market branches will consume a majority of non-interest expense. Financial institutions must rigidly hold stable market branches to benchmarks for each retail branch position in order to maintain staffing efficiency and keep personnel costs appropriate.

Declining markets – In a market where the population is declining or where once vibrant business destination points now contain vacant retail space, institutions must consider reducing personnel and services. Many institutions turn declining market offices into service-only locations instead of incurring negative community pressure for closing the branch. A service-only branch can operate with only a few cross-trained tellers/ CSRs and an assistant manager who can address account opening requests. But bankers must acknowledge that the salary burden of a full branch manager or business development officer may not be justifiable in a declining market.

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