FORTRESS PARTNERS
E-Memo

TO: INVESTORS/MEMBERS/PARTNERS AND FRIENDS
FROM: Jon Bruss & Scott McCallum
DATE: April 30, 2018
SUBJECT: **Single Charter Bank Holding Companies—Do They *Really* Perform Better?**

We may be throw-backs but we matriculated our rotational management training programs in an era that limited or prohibited branch banking. We saw how well First National City Bank (n/k/a Citi Bank) executed in a multi-branch environment in New York City. We saw how Bank of America grew to dominate California its permissive multi-branch environment but here we were in the Midwest with limited or no branch banking legislation on the books in our states.

We have all heard the old bromide: *necessity is the mother of invention.* And indeed, it was and, arguably is—especially when it comes to multi-bank holding companies.

We came to this conclusion recently when the *American Banker* published a piece entitled "Do multiple charters still make sense?" in its April 17, 2018 edition. The article pointed out that a $423 million asset bank holding company, Blue Ridge Bankshares in Luray, Virginia, was in the process of forming a bank in Greensboro, North Carolina. The writer went on to point out that this action by Blue Ridge "runs counter to an industry-wide preference to streamline. . . [f]ollowing the financial crisis, [when] many banks consolidated charters to cut costs. . ."

But, if memory serves us correctly, this "industry-wide preference to streamline" began well in advance of financial crisis and, as we recall, likely began in earnest in the early to mid '90s. Consultants whose only exposure to commercial banking was at Harvard or Wharton in case studies where horizontal manufacturing consolidation was analyzed laid these analyses over to other industries, one of which was commercial banking. We weren't there so we don't know that this is exactly how charter consolidation was considered and then tried. And, voila!—the commercial banking industry found it could cut costs by eliminating charters and bank boards and, so charter consolidation became stylish—unfortunately.

Unfortunately, because these "banking" gurus from Wharton and Harvard had little if any hands-on banking experience and no exposure to revenue generation in on-the-ground basic blocking and tackling commercial banking. It is our belief that commercial banking, at its core, is *community* banking whether the target business is the independent office supply retailer across the street or OfficeMax corporate. It's a "who do you know" that gets a banker in the door and "what do you know" that gets the banker the business.

Our experience tells that the "who do you know" is driven in part by the board of directors of a bank charter that is well embedded in the communities served by the bank charter. These directors are likely to be successful business executives and owners who are also completely engaged in their communities. They are well known and respected for their success both in their business activities and in the leadership roles they have played in their communities.

Our experience as bank managers and bank directors has allowed us to see how the role these directors fill plays out (and pays off) in driving the reputation and growth of the bank. It is clear to the public—clear to the bank's customers that these directors are applying the success they've achieved in their businesses to successful governance of the bank. The local cardiologist, the former mayor, head of a civil engineering firm, the owner/manager of the large HVAC firm, the head of an independent public accounting firm in town, the serial entrepreneur who formed and manages a large commercial real estate REIT, the head of a large title company and the list goes on—these are the directors who successfully *translate* (not transfer) their business acumen to the success of the bank. Many of these directors are veteran bank directors having served similar roles in other banks.

Two successful bankers recognized the value added by bank charter directors, have capitalized on that value by retaining the bank charters they have acquired and have been very creative in making charter retention work, namely: Ed Wehmer, president and CEO of Wintrust (WTFC), the $28 billion asset, 15 charter bank holding company headquartered in Rosemount (Chicago), Illinois and Lynn Butch Fuller, a/k/a Butch Fuller, chairman and CEO of the $10 billion asset Heartland Financial USA (HTLF), Dubuque, Iowa with banking charters in 12 states from Illinois and Wisconsin in the east to California in the west. Each has a slightly different business model. Their governing structures differ. HTLF has a single state-wide charter in each state in which it does business whereas Wintrust has multiple charters in its home state but a single charter in Indiana and in Wisconsin. Was necessity the mother of invention or did it just make sense?

If one believed analysts and consultants whose mantra is *consolidate charters-eliminate boards-cut regulatory costs-centralize credit*, how do Ed and Butch survive? Well, as we all know, to survive one needs to perform and perform they did. Are they and their holding companies anomalies?

PRICE PERFORMANCE

PERIOD	SNL >$10 billion in Assets[1]	SNL $5 billion to $10 billion in Assets[2]	NASDAQ Bank[3]	HTLF	WTFC
Last 10 years to 3/31/2018	+32%	+82%	+59%	+151%	+146%
Last 5 years to 3/31/2018	+89%	+111%	+97%	+115%	+134%

Detractors may choose to disagree and, arguably HTLF or WTFC, one on one against your bank may not show such attractive performance. There may be other arguments for consolidation but we believe that for banks in an acquisition mode, retaining a target's charter and board of directors may make acquisition, integration, employee and customer retention efforts easier and still extract significant costs to make the acquisition attractive.

According to the *American Banker*, a couple of bank holding companies have chartered their out-of-state operations including International Bancshares in Laredo, Texas for its Oklahoma operations and Farmers Bank & Trust of Blytheville, Arkansas is chartering its division in Tennessee, each thereby creating opportunity for directorships for these new charters.

What do you think? Would retention of charters work in your acquisition plan? Would you invest in a multi-bank holding company? Let us know at info@fortresspartners.com.

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[1] Includes all Major Exchange Banks (totaling 86) in SNL's coverage universe with assets greater than $10 billion as of most recent financial data
[2] Includes all Major Exchange Banks (totaling 46) in SNL's coverage universe with $5B to $10B in assets as of most recent financial data
[3] NASDAQ Bank Index contains securities of NASDAQ listed 334 companies classified as Banks