

FORTRESS PARTNERS

E-Memo

TO: INVESTORS/MEMBERS/PARTNERS AND FRIENDS
FROM: Jon Bruss & Ed Depenbrok
DATE: October 20, 2018
SUBJECT: Is Your Bank a *Relevant* Community Bank?

A September 11, 2018, American Banker BankThink article was entitled, "Why Banks Need to Simplify: A Business Case" by David Maya and Til Schuerman got us to thinking. The timing of the article brought us back to the infamous failure of Lehman Brothers on September 8, 2008—ten years ago. An unpleasant journey down memory lane. It also got us thinking. While the article was focused on larger banks needing "to act like smaller, simpler institutions while maintaining the advantage of size", it also caused us to ask: well, then, what about the community banks? Aren't we "smaller, simpler institutions"? What do we need to do differently in this rapidly changing landscape?

First of all, if any of us in community banking think it is still 1995 and things will always be the same: STOP! The world has changed!

The destruction of the financial crisis of the last decade, the inexorable consolidation of our industry, combined with the relentless march of technology impacting who and what our competitors are and how our customers want to interact with us, has dramatically changed the landscape community banks operate in. The world has changed indeed!

How do we deal with this changed world with limited resources vs. the billions of dollars thrown around by mega banks? We seem to end up focusing "in the business" as a recent blog from NCR pointed out rather than "on the business". So what does this mean? Simply that we need to stick our heads above the water and attempt to understand our banking industry surroundings. Those of us focusing "in the business" due to limited resources fall into the trap of being reactive rather than proactive according to NCR. The trick for community banks is to lever the resources we do have—our customer relationships! Almost as a corollary to the advice of the American Banker article directed toward the larger bank, the community banks need to simplify their business cases as well.

While we must recognize that there are scale issues that need to be understood and dealt with, even more importantly, we cannot lose our ability to act small and be simple while adopting services and products that compete with the big banks. We need to:

- ✚ Be agile.
- ✚ Be connected to our communities.
- ✚ Find the right FinTech provider to help us develop an approach but also to build, implement and manage a "robust digital ecosystem". And,
- ✚ Not be shy about telling the markets that we serve who we are and what we can do as their LOCAL partners in their community.

Active customer management.

So, what do we need to do to remain relevant in today's changing environment? Actively manage our key customers by focusing on complete/total relationships. We need:

- The right FinTech provider to help us develop an approach but also to build, implement and manage a "robust digital ecosystem" which includes
- Complete/total C&I, CRE, REM, demand deposit relationship.
- Customer and prospect contacts at least quarterly on the anniversary of the start of their relationship with an email followed by a phone call – not a time-waster, but a real, structured call intended to get real feedback.

- Schedule customer “thank you” events:
 - A day at the ball park or the football stadium
 - An evening at the symphony or a traveling Broadway show
 - Sport fishing with guides on nearby waters or hunting at a game preserve.
- Offer non-banking services by thinking out of the box like how good is your HR department? Is it good enough to offer HR services to your banking clients?

Active shareholder management.

Also to remain relevant in today’s changing environment we need to actively manage our shareholders through communication, marketing and equity structure—meaning:

- Establish a dividend policy and communicate it to shareholders and
- Develop a share repurchase plan to provide shareholder liquidity and communicate it.

To exert influence on our shareholders will help to align the interests of employees, management, the board and the shareholder base. We believe that is a hallmark of success of top performing banks.

Schedule shareholder events—these are the folks who risked a lot to support your business plans (in some cases, for generations):

- Quarterly, write a factual and understandable shareholder letter with financials
- Annually, hold a shareholders’ meeting with PowerPoint slides and details of the results of the past year and share your bank’s vision for the future.
- Make the meeting an “event”!

As we plan for 2019 and beyond, we can’t lose sight of what differentiates us from our competitors and what we need to do to keep those differentiators strong and effective (through our people, processes, and products).

We must keep our unique identity and sense of purpose in the marketplace we serve. Sure, there is a lot of change. But simply being reactive and becoming complex and undifferentiated in responding to the change will not be enough.

We must remain unique in serving our communities – not as a shadow of what we were in 1995, but as an always relevant community bank in 2019 and beyond.

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FORTRESS
P A R T N E R S
C A P I T A L M A N A G E M E N T, L T D.
N61 W29865 Stoney Hill Court, Suite 200
Hartland, WI 53029
262-369-1095 (Jon Bruss and Ed Depenbrok)
www.fortresspartners.com

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