FORTRESS PARTNERS

E-Memo

TO: INVESTOR/MEMBERS, BANKERS AND FRIENDS
FROM: Jon Bruss
DATE: October 31, 2020
SUBJECT: *DO NO HARM*, MR. COHN!

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In August we were reminded that the diverse and competitive banking system founded by Hamiliton has been key to the resilience of our national economy and reinforces a mantra often repeated in these pages: *the FOUNDATION of a strong and free economy is a diverse and competitive banking system.* Clearly Gary Cohn didn't read our August *E*-Memo. Nor did he hear or listen to the Board of Governors of the Federal Reserve, the Directors of the Federal Deposit Insurance Corporation or the Office of the Comptroller of the Currency when he served as head of the National Economic Council in 2017-2018. Nor did he hear them during the 25 years he worked at Goldman Sachs, retiring as it Chief Operating Officer.

Cohn was interviewed at an American Bankers Association event earlier this month said in response to an interviewer's question about how banks could handle the evolving technological and regulatory changes, "I just don't think you can really be a one- or two- or three-branch regional bank in this world with the legal component, regulatory and digital needs that you have today."

It is hard for me to believe that the former COO of Goldman Sachs could have a tin ear when it comes to banks and banking! Goldman Sachs continues to have a tremendous influence on the financial affairs of our nation in both Republican and Democrat administrations. As such, Goldman's pronouncements and those of its executives carry a lot of weight. And one would think that Cohn would know better than to comment negatively about community banks. And as hard as it may seem to believe, Goldman Sachs does investment banking for commercial banks including several mega deals in the last 12 months.

What's bothersome to me and should be to you, our readers, is Gary Cohn's apparent complete lack of understanding of the banking system and his ignorance of community banks and banking. Given the investment banking services Goldman provides to banks, one would think that Cohn would understand that a bank *can be* a "one-or two- or three-branch regional bank" and survive even as the banking world is going digital. According to the banking cognescenti at Goldman Sachs, community banks will *have* to merge into smaller regional banks and then into "super-regional banks." Cohn believes that the trend of disappearing community banks "will likely only be hastend by the coronavirus pandemic." In our opinion, it is less likely that the pandemic will hasten the demise of community banks than a lack of management competence or a number of other non-medical maladies plaguing banks

There is no question that more and more transactions are being done digitally. In fact, we talked with a community bank recently that told us that 70% of their senior clients were banking digitally rather than using a branch. But this was a community bank telling us that they had the digital tools to allow them to retain and provide service to their clients. Cohn further pointed out that in order to survive community banks will need to invest in digital technology (MOON TO GARY, *they already have invested and continue to invest in digital technology but the cost of keeping up is **not** driving M & A!*).

We think that banks will do a better job than the medical community of attribution of death (or merger) to the virus. Bank mergers like natural deaths have multiple reasons, multiple causes.

Cohn thinks that "[t]he role of the community banker has been diminished in some ways, which in some respects is a shame. . .[b]ut it's just sort of the natural evolution of where banking has come." Cohn went on to say that the decreasing number of community banks is "probably not a good thing overall." Really?

Did Cohn see how community banks outperformed during the Paycheck Protection Program by making more than half of the PPP loans or approximately 2.8 million loans?

Thank goodness the president of the Kansas City Fed, Esther George, said last year that community banks are "both the catalyst and the backbone for sustained growth [of the economy]." But I suppose that such a comment from someone from the hinterland is not highly regarded by Goldman Sachs as from the president of the New York Fed.

I don't think community banks should rush to Gary Cohn for advice and counsel. In some respects I think his comments were patronizing and ignorant. They are reminiscent of Gov. Frank Keating's remarks as president of the American Bankers Association to a meeting of publicly traded and privately owned community bank exeuctives and their investors as he basked in his self-created glow announcing that Morgan Stanley had joined the American Bankers Association. Talk about tin ears!

With a presence in every congressional district, according to the Independent Community Bankers of America's (ICBA) Rebecca Romero Rainey, community banks reached rural areas and neighborhoods that the big banks couldn't and hence were successful in saving tens of thousands of jobs by facilitating PPP loans. According to Rainey, Cohn's remarks "do not reflect the current state or the bright future of community banking."

Community banks have long been more nimble than their mega bank brethren. It is no longer out of the ordinary for community banks to partner with third party vendors providing the latest technologies and services to their customers. Some would argue that the chief technology officer (CTO) in a community bank is an oxymoron. We wholeheartedly disagree. Bank technology experts are fleeing the big banks and big tech for the chance to develop a cadre of well trained technology implementers in a community bank. These CTOs could fit well into a $10 billion to $25 billion asset bank but prefer the flexibility of a smaller bank where experimentation and even occasional failures are tolerated.

Some community banks are investing in emerging fintech companies set on transforming the banking system. Rainey said she's seen "firsthand how technology service contracts can be tailored for the size of the bank or the number of transactions" whether it's a $50 billion asset bank or a $200 million asset bank.

Community banks—all 5,000 of them—continue to prove their mettle, continue to innovate in processes, procedures and technologically. Just like in past times of economic stress, community banks have taken a beating in the public markets but have rebounded. We believe this time community banks will also shine like the jewels in the crown of the American economy!

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