BANK PROFIT CENTERS

HOW TO MAKE MONEY OWNING A BANK OR BANKS

I. PROFIT CENTER ONE; BASIC BANK INCOME

A. The main income and the primary function of banks is to lend money and earn interest income on behalf of the bank. This comes in the form of interest monthly on loans granted and fees collected for upfront costs.

B. The second main source of income in a bank is fee income. This comes in many forms including but not limited to fees for saying hello, fees for opening the door, ATM fees, NSF fees, wire transfer fees, statement fees, document fees and etc ad nausea.

C. Although (A) & (B) are the standard and customary fees where banks earn money, the successful banks earn money in additional ways

II. PROFIT CENTER TWO; INCOME ABOVE THE FIRST BASIC INTEREST & FEES

A. A Mortgage Servicing Center is a very profitable way to earn a substantial income at a low risk.

B. Mortgages of all types can be originated with fees charged up front.

C. Then the loans can be sold off and the bank retains the servicing which generates a monthly income on each loan originated, but the risk is passed on to the buyer.

D. SFR loans including FHA, VA, Fannie Mae and Freddie Mac. A bank has to be an approved originator and an approved servicer.

E. SBA loans are a good source of income for small banks. This extends the lending limit of the bank because the government guaranteed portion is excluded from the lending limit of the bank. The government guaranteed portion of the SBA loans can be sold off and the servicing can be retained by the bank.

F. Loan participations with other lending institutions and funds can be generated. The bank originates the loans, keeps the lion's share of the fees, and gets paid for servicing. Most bankers are narrow minded and do not see the “outside the box” thinking like you do. By this they look for loan participates within the banking community. They should expand their focus and look FIRST outside the banking community to Hedge Funds, Private Equity Funds, and even private investors. Think about who a private investor would prefer to invest their risk capital, with a hard money lender or with a bank.

III. PROFIT CENTER THREE; A BANK HOLDING COMPANY

A. Many bankers, attorneys and inside the box thinkers do not recommend having a bank holding company, primarily because it brings in another level of regulatory control, The Federal Reserve. Yuck, no one wants more government regulation.

B. To have this narrow thinking, limits the bank to the conventional banking idea and concept and is not progressive thinking.

C. The reasons for a bank holding company are many; the investors/ stockholders can control a bank or several banks without owning 100% of the stock. There is much more flexibility in Holding Company stock ownership than in bank stock ownership. An example of that would be in Non-Profit stock ownership.

D. In buying and owning multiple banks, the holding company CEO, CFO, CTO, CFO, compliance Officer, and auditor can be one and the same with the bank(s). Even the Board members can be the same.

E. A bank holding company can have subsidiary companies that are non banking entities. Including but not limited to some of the types of businesses that holding companies can own are securities companies, property management companies, trust companies, consulting companies, real estate investment and development company, in some cases an insurance company etc.

    a. A private party could joint venture with a subsidiary of the holding company on real estate projects. This adds credibility. Given a choice where would an investor put his money; with a private developer or with a bank affiliate?

b. We identify bank toxic assets and contact the bank or the FDIC; who will they respond to quicker a bank or a private party? At the same time the holding company brings in outside investors to Joint venture because the private investors cannot open the doors and the bank holding company subsidiary does not have all the money needed. A perfect J V.

IV. PROFIT CENTER FOUR; TRUST DEPARTMENT OR TRUST COMMPANY

A. A trust department can be the most profitable department of the bank if is properly managed. I actually like the trust department being a trust company under the holding company so you can sell off the bank and keep the trust company.

B. Here again many "old style" bankers, attorneys, and negative thinkers do not like trust departments because of potential liability and the fact they do not understand how to be creative and profitable.

C. Who needs a trust department? Wealthy persons and companies that have employee benefit programs. Who are the best bank customers? Wealthy persons and companies. This is cross selling that benefits the entire bank.

D. The large banking empires that are making huge profits are into wealth management.

E. Your contacts in the nonprofit, charitable world and sports fields is a captive field for generating trust business and managing money for these entities.

F. The best thing now for trust departments to make money is 401K's and self directed IRA's. I like the self directed IRA's as it lessens the liability and opens the door to large profits. You only need one trust department as you can handle trusts, IRA's and 401K's all over the word from one location anywhere.

V. PROFIT CENTER FIVE; ACQUIRING BANKS

A. When you reach the $1 billion dollar plus size in the bank holding company then you can get on the FDIC bid list, and they will offer you opportunities to buy problem banks. You can buy at a much lower price and sometimes they will even pay you to take them over and your bank gets all the free deposits, and you have your choice of problem loans to take them or leave them. The FDIC may even pay you to take over some of the problem loans. This is not open to non banks.

B. If FDIC pays you a premium this can be booked as profits right into retained earnings. This is actually a double profit center and maybe a triple profit center.

C. Profits from the premium the FDIC pays you for taking over a bank. The profit from selling off toxic assets from the failed banks you acquire. The assets and deposits you pick up at fire sale prices.

VI.HOW DOES THE INVESTOR/STOCKHOLDER MAKE MONEY?

A. Banks in a “normal” market sell for 2 to 3 X Book value. A bank with a capital base of say $20,000,000 should sell for (conservative projection) 2 X book even in bad times if it is clean.

B. Let’s take a very conservative approach and say bad loans wipe out all the capital and reserve for loan losses so you basically start with $-0- in capital. You invest $20,000,000 in the bank as newly issued common voting stock. That gives the bank a $20,000,000 capital base. The value the day you close should be valued at a minimum of $30,000,000 (1.5 X book) on a good day (3 X book). Let’s be conservative in 2009 and say 1.5 X book is the value the day you close because we have just written off the bad assets. Your investment of $20,000,000 is now worth $30,000,000 and that is a 50% profit (paper profit) the day you close.

C. Now let’s say that is a $200,000,000 bank (as an example) with a $20,000,000 capital base. Let’s say you do nothing but recapture $10,000,000 in losses that go back into capital. Now your capital is not $20,000,000, but it is now $30,000,000. At 2 X book that $20,000,000 is now $30,000,000 X 2 = $60,000,000. Now that $20,000,000 is valued at

$60,000,000. That calculates to a 200% return. The market is still slow so we are sticking to the conservative formula of only 2 X book.

D. Now the smaller the bank the faster it should grow. The first two years the $200,000,000 bank should double to $400,000,000 and the capital should more than double but let's be conservative and just stick with the 10% capital to asset ratio. In 2 years the capital should be $50,000,000= $20,000,000 investment + $10,000,000 recapture of losses, plus $10,000,000 in profits. Now the bank should be valued at 2 X $50,000,000 = $100,000,000.

E. The bank should double over the next 3 years. $400,000,000 should be $800,000,000 at the end of 5 years and capital by now should be $100,000,000 X 2 ½ because the market should have turned by now. The $100,000,000 X 2 ½ = $250,000,000. That $20,000,000 investment is now worth $250,000,000. The original investment increased 12.5 times in 5 years using this formula.

F. The bank should double again in the next 5 years. The $800,000, 000 should be $1,600,000,000 and the capital should go from $100,000,000 to $200,000,000. At 2.5 X book that is $500,000,000 (the market may be back to 3 X book now) The $20,000,000 is now worth $500,000,000 = 25 X the original investment.

G. An investor should decide whether they are a short term investor (1-3 years) a medium term investor (3-7 years) or a long term investor (10 years +).

G. A bank investment should be considered for the medium term or long term investment, UNLESS after the bank conglomerate is in operation your business plan can include buying smaller banks, turning them around and selling them off piece meal. Those can probably be sold at 3 X Book in a strong market after they are turned around and recapitalized. Besides that the regulators will love you forever.

H. So far we have referred only to making money in the bank stock value and increases. It is of course only paper profit until it is sold. After it is sold it realized profit and until the tax laws change it is taxed as capital gains.

I. In the business plan we have devised, the importance of the Bank Holding Company comes into play as well as the trust company. It is touchy to J V with the bank but under the holding company and even the trust company there are more flexible rules and regulations. Now the bank is the avenue to open the doors to opportunities that most people do not even know exist. (This value does not show up on the balance sheet). This is actually better than good will.

J. NOW WE GO INTO OFF BALANCE SHEET OPPORTUNITIES FOR BOTH THE BANK AND INVESTORS. An opportunity that might come along is the bank finds $50,000,000 in toxic assets that they would like to buy but they cannot due to capital and regulations. Because you are a bank they will sell to you at say $30,000,000 and you buy it under the holding company with the Hedge fund or private fund investing the money and the bank holding company subsidiary shares in the profit for their contacts and expertise. This would also be a good place to use the nonprofit entity. If you buy these in the holding company with a J V partner and continually make 25-50% return by value enhancement and flipping then it would be difficult at best determine the real return because it becomes almost an infinite return.

K. Are all banks doing this? NO. WHY? Because few of the smaller banks understand this type of program. I am not even sure the large banks understand this opportunity. They do not teach this at Harvard or Stanford or any other school I know about, except experience school and wisdom.

L. After this plan is put into place then you can go around doing power point presentations to generate investors for the bank and for the J V real estate projects under the holding company.

M. Now you have two credible types of organizations that will open doors for you; a bank or more important a bank holding company, and nonprofit charities.

N. Of course I cannot guarantee these returns unless it is my business plan and my management.

O. Of course past returns are no guarantee of future returns.