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Commerce Street Capital's Conference Speakers suggested Cautious Optimism about the Road Ahead

DALLAS, May 10, 2017 – Managing banks cyber threat risk, using technology to engage with customers and finding growth opportunities in a challenging banking environment – these were some of the strategies presented during Commerce Street Capital's ("CSC") 15th Annual Banking Conference. More than 200 regional and community bankers in attendance heard insights about positively raising your bank's profile and mitigating risk amid an uncertain economy.

In opening the conference, CSC's Chairman Tex Gross noted a dramatic change in regulatory attitude from four years ago. Gross observed that the very regulators who have suppressed new bank formation for the last four years are now contacting CSC and asking "Will you bring us a denovo bank?"

In an overview of top banking trends for 2017, Dory Wiley, President and CEO of CSC, discussed statistics indicating a stronger economy signaled by higher consumer confidence, improved outlook for increasing interest rates and the ready availability of capital for deals. Wiley predicted, "The financial sector offers pretty good valuations now and, if this market holds, there will be lots of public bank stock offerings during 2017."

Wiley was optimistic about a friendlier regulatory environment for banks, but cautioned that banks have exposure in enterprise risk management including fiduciary risks and lending to overheated industries. Wiley observed that banks face many of the same challenges as the retail industry and recommended careful management of interest rates, loan duration and spread as well as diversification through investments such as SBICs.

A panel on "Managing Your Bank's Cyber Threat Risk" was moderated by Brian Johnson, Managing Director of CSC and included panelists Brad Smith, Managing Director, Technology Solutions with Cornerstone Advisors and Ben Trowbridge, Cyber Managed Services Leader with Ernst & Young. To mitigate their cyber risks, banks were advised by Smith to increase their focus on their networks, use established cybersecurity providers and monitor all Internet banking providers. Trowbridge said priorities for banks are developing a strategy for managing identity and access; establishing a threat exposure program; review their data storage and encryption processes; and having a threat detection and response action plan.

Later in the day, Johnson also gave an update on banking's M&A environment, noting that after a year of low activity, bank M&A is on an upward trend that is expected to continue. "Some larger regional banks are struggling to drive a reasonable rate of return for shareholders and are getting pressure from activists to consider strategic options," he said. "So, I do believe that bank M&A activity will continue to increase, but I don't think the deal value will reach 2007 levels."

Corbett Guest, CEO of Imaginuity recommended that banks develop a digital brand strategy to improve their online presence, while continuing to build long-term relationships with their customers. Guest stated, "Mobile search is roughly 60 percent of all searches; and people spend 50 percent of their online time on social media." Facing these marketing trends, bankers were advised that they needed to create an overall brand experience for their customers who face a plethora of marketing channels.

Annika Cail, Vice President at CSC moderated a panel that gave insights into creative capital solutions for bank debt. The panel, which included Preston Massey, Co-Founder and Managing Partner with Congruent Investment Partners; Jason Baker, Senior Vice President – Middle Market for Comerica Bank and Brendan Achariyakosol, CSC Managing Director in their corporate investment banking and valuations practice, offered several case studies. These examples related where capital stack gaps could not be covered by senior debt were financed with junior capital from private equity firms or other non-bank sources. Achariyakosol noted, “Sourcing funding to complement senior debt is something CSC provides in almost every transaction in which we’re involved.”

Vance Ginn, Ph.D., Economist for the Center for Fiscal Policy at the Texas Public Policy Foundation in Austin, noted a lot of economic uncertainty, but said strong financial institutions will weather the storm, particularly in Texas. He explained that Texas has created 27 percent of total U.S. employment increase since before the Great Recession, stating, “The American dream isn’t dead, it has simply moved to Texas.”

Ron L. Rubin, RonaldLRubin.com, writer, lawyer, and former enforcement attorney with the Consumer Financial Protection Bureau (CFPB), offered an insider’s look into the federal agency created in 2010 to enforce consumers financial laws that became an unrestrained advocate of liberal anti-market policies. Dennis McCuistion, author, TV host and Executive Director at the Institute for Excellence in Corporate Governance at the University of Texas at Dallas led the interview.

Wiley moderated a panel about exploiting growth opportunities in community banking. The panel, which included Scott Wade, Chairman and CEO at AimBank in Levelland, Texas; Paul Murphy, President and CEO at Cadence Bank in Houston and Roy Salley, Chairman, CEO and President of Oakwood Bancshares, Inc. agreed that the biggest challenges to growth are credit, loan rates, and recruiting and retaining talent. Wade believes one of the keys to overcoming some of these challenges is to have a mindset of maintaining a diverse loan portfolio without outsized exposure to one credit type. He also recommended offering ownership in the company when hiring preeminent executives and business developers in the company and building relationships with small businesses and commercial customers.

In the closing presentation, Roger Beverage, President and CEO of the Oklahoma Bankers Association observed that the single biggest threat to banks today is fraud and cyber-crimes. He noted that since January 2015 there has been a 1,300 percent increase in business email compromises, resulting in $3 billion in losses worldwide and $1.1 billion in losses to U. S. corporations and citizens. Beverage explained that banks should invest in education about email security for their employees and a cohesive cyber security program to reduce the damage from inevitable attacks.

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