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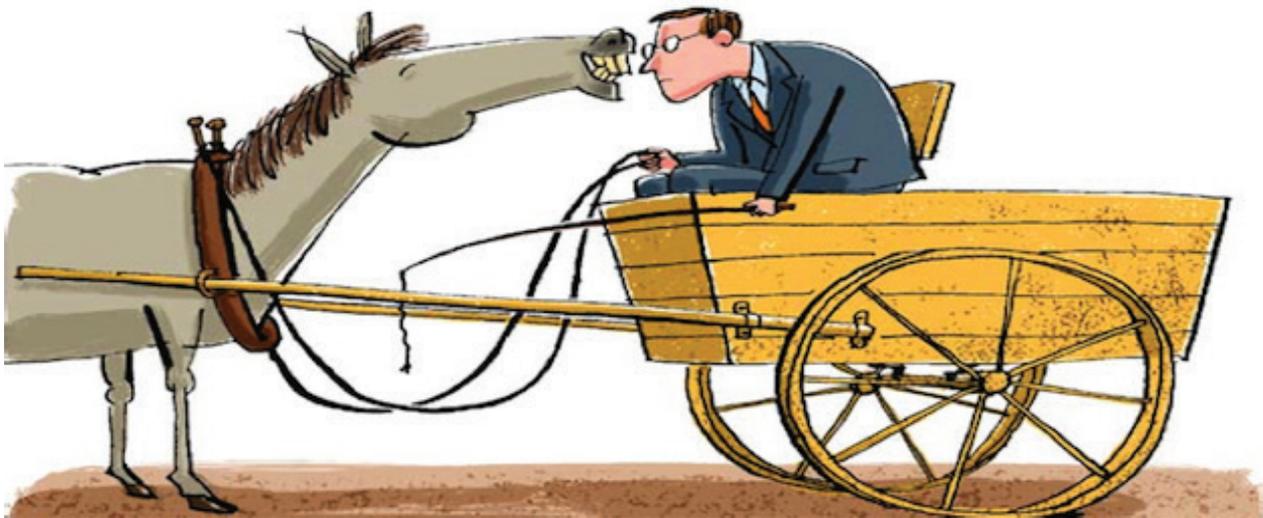
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PUTTING THE CART BEFORE THE HORSE: A CASE STUDY ON BRANCHING

Charlie Steele

Often Community banks seem to take a backwards approach to branching. First, they see a property available for sale or rent or they are approached by a real estate broker or an insider with a property that would be great for a branch. Then they start to look at the market to see if it would indeed support a branch in that location. That seems like putting the cart before the horse.



A better approach is to analyze the bank's current market and identify communities or regions that would likely support a new branch and enhance the bank's existing branch network. Once you know where you want to go you can then start to find a location that will match your needs.

In 2013, with only five branches and nearly \$1.2 Billion in assets, Needham (MA) Bank asked PFT to highlight the best market expansion communities in the counties that comprised the bulk of the Bank's Metro West market. As a data and analytics company with solutions that helps financial institutions improve performance and identify growth opportunities, PFT was uniquely positioned to help Needham Bank make a data-driven decision that would lead to the best ROI.

They crunched the numbers on all the communities of southern Middlesex, Norfolk and Suffolk counties and came up with 15 markets that provided the best opportunity for de novo branches. The Bank prioritized 5 communities and PFT identified 20 potential properties in those 5 communities as possible sites for a new branch. Driving around looking at those properties led us to two other properties that we thought might be worth pursuing. One of the properties was not even on the market as being for sale or rent, but after a little investigation we discovered the owners were in the middle of lease renewal negotiations with a barber shop, but would be delighted if a bank was interested in leasing this former bank branch property.

In the end, Needham Bank decided to pursue 3 new locations simultaneously, because lease negotiations, permitting and construction can present numerous pitfalls over time. The three communities we settled on were Ashland, Millis and Natick. As we started the process, Bank of America decided to close their branch in Dover, which was in the middle of the Bank's existing footprint. It was a no-brainer that we would have to go after that branch as well as the other three.

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Since it was an existing bank branch, the Dover location did not need much in the way of permitting and after some cosmetic improvements it opened for business in August 2014. Ashland was a permitting nightmare despite having once been a bank branch. There was a faction in town that wanted to take the building by eminent domain to help create a Town Common for the center of Ashland. Nevertheless, the Bank prevailed and after some major gut renovations opened for business in June 2015. Millis was a lot easier as the Bank was replacing an abandoned gas station at one of the Town's few lighted intersections. Building on the site of an old gas station presented some environmental issues, but those proved manageable and the branch opened for business in October 2015.

Natick was challenging in that we had to deal with an irascible landlord, a local historic district and downtown zoning that required a two-story façade. Keeping an eye on the finish line we were able to complete the building and open for business in March 2016.

As part of the application process to the Federal Reserve and the Division of Banks, we submitted financial projections that showed all four branches breaking even in the third year. All four branches exceeded our projections with three of them passing the breakeven deposit level in year two and the fourth far exceeding breakeven in year 3.

		Opened	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20
60 Centre Street	Dover	8/18/2014	23,470	25,984	44,787	51,526	76,952
41 Front Street	Ashland	6/15/2015	33,708	33,942	34,939	37,168	65,896
857 Main Street	Millis	10/15/2015	17,793	26,057	30,268	35,357	60,142
17 W. Central Street	Natick	3/15/2016	7,940	17,690	24,808	74,033	102,630

What we learned from the PFT analytics was which communities provided the best opportunity for a successful de novo branch. Without that, we would have been branching into new markets with only a gut instinct to guide us.

The right approach should always be **identifying the best communities that provide the greatest possibilities for supporting a de novo branch and only after doing so, looking for suitable real estate to implement your decision.**

To begin the process of identifying the markets that would support a new branch and enhance your existing branch network, contact Richard Buttermore at [\(508\) 717-7721](tel:5087177721) or via email at rbuttermore@pfintech.net.

Be sure to visit our website at www.pfintech.net for more informative and educational content in our Resource Center.

ABOUT THE AUTHOR

Charlie Steele was most recently the SVP, Strategic Planning at Needham Bank. Charlie has broad banking experience as a CEO, CFO, and SLO. He has been involved in starting a successful de novo bank, numerous banking mergers, and has also worked as a consultant in the areas of strategic planning, mergers, and branching. Charlie is a leader within the CT Banker's School of Finance & Management.

ABOUT PARAMOUNT FINANCIAL TECHNOLOGIES, INC.

Paramount Financial Technologies (PFT) is a data and analytics company that provides decision support services to banks and credit unions. We integrate consumer and business market intelligence with our customer's internal data to help guide decisions related to how best to grow core deposits, increase business banking relationships, reduce costs, grow digital banking and improve branch network performance in what has become an extremely uncertain climate.