The ICBA Services Network just filled in a missing link, investment banking services, by signing up a new partner, Chicago-based Howe Barnes Investments Inc. “Investment banking is a critical service that is becoming more important all the time for our members,” says Jim Reber, president of ICBA Securities, ICBA’s bank portfolio investment services corporation, which will oversee the new program.

With nearly 1,700 community banks now publicly traded, the program has great potential. Howe Barnes has services that “could benefit many community bankers, some of whom aren’t even aware of these services and how they could use them,” Reber insists. Three primary kinds of investment banking services are available through the ICBA Securities–Howe Barnes program:

- Corporate finance services, including mergers and acquisitions advice and valuations,
private and public capital offerings and initial public offerings.

• **Market-making in a community bank’s stock.** The dealer (in this case Howe Barnes) keeps an inventory of a bank’s stock and buys it from sellers and sells it to buyers, providing a ready buyer or seller and trading liquidity. Howe Barnes makes a market in more than 260 community bank stocks and will increase that number substantially once it gains new business from ICBA members, Reber says. It’s still possible that a community bank’s stock could be so thinly traded that it would be difficult for a third party to make a market in it, he concedes.

• **Research.** Analysts at Howe Barnes publish investor-oriented research on more than 70 community banks and expect to increase that number, offering independent assessments of whether a bank’s stock is fairly valued, overvalued or undervalued. Such research can dramatically increase the stock’s visibility and attract a larger group of institutional and retail investors.

Research may be the most restricted of the three services, while market-making, the one with the lowest overhead, is likely to be the most popular among ICBA members, Reber says.

### No Size Cutoff

“We have no cutoff. No bank is too small for us to provide a bulletin board listing for its stock,” says Dan Coughlin, president and CEO of Howe Barnes. “That service won’t bring us much revenue, but it’s all about building relationships.”

Among corporate finance services, bankers are likely to welcome valuation services, which help them determine the fair market value of a bank or branch, whether they’re buying or selling, Coughlin adds.

For debt issuance, Howe Barnes’ bond division has been folded into ICBA Securities, which will underwrite and market community bond offerings, Reber notes.

It’s too soon to say how large the transaction volume will be or how much revenue Howe Barnes and ICBA Securities will realize from the arrangement. (ICBA Securities receives a share of what its members pay to Howe Barnes.)

While transactions are still in the future, the publicity machine is running hot. ICBA Securities and Howe Barnes have been hosting seminars and Webinars and making presentations that have reached hundreds of ICBA members. Community bankers pay no fee to be introduced to Howe Barnes by ICBA Securities and will never pay a cent unless they choose to use the program’s services.

“The benefits will be huge,” says Rusty Cloutier, president and CEO of the $640 million-asset MidSouth Bank, N.A., in Lafayette, La., and chairman of the ICBA Services Network board. “It will offer community banks the same access to the capital markets that the largest banking companies enjoy. If the bank is publicly traded, Howe Barnes can help raise capital and can make a market in their stock. It can advise them on a range of issues, including ESOPs and going private. It can assist them with any capital-driven transaction.”

### Community Bank Focus

While many investment banking firms theoretically welcome community banks, “99 out of 100 of them will tell you privately that small community banks are more trouble than they’d admit publicly,” Cloutier says. “The ICBA link means that Howe Barnes will remain totally focused on helping community banks while other investment banking firms dabble in this market. Helping community banks is their business plan.”

“We have no cutoff. No bank is too small for us to provide a bulletin board listing for its stock.”

—Dan Coughlin, Howe Barnes Investments Inc.
From its original base in Chicago, Howe Barnes has opened a four-person office in Raleigh, N.C., and anticipates having an office in Memphis, home of ICBA Securities.

MidSouth Bank has been publicly traded for 12 years, and Cloutier personally welcomes the ICBA-Howe Barnes arrangement. "I've worked with several investment banking firms in the past," he says. "I'm absolutely planning to work with Howe Barnes and the ICBA capital markets group in the future. They're now an important weapon in my arsenal."

MidSouth Bank is growing and needs to expand its capital base, Cloutier says. "Howe Barnes can help us raise capital through trust-preferred or other stock issues. They can extend the market for our stock and improve its liquidity by making a market in it. This is definitely good news for me and a lot of community bank executives."

‘Consummate Professionals’

Cloutier is absolutely right, says one banker who has worked with Howe Barnes in the past. The $412 million-asset St. Joseph Capital Corp. in Mishawaka (South Bend), Ind., is an ICBA member that has used Howe Barnes. John Rosenthal, chairman, president and CEO of the one-bank holding company started in 1997, says he found the company "just terrific." He cites two offerings of trust preferred stock, one for $3 million and one for $5 million, as particularly useful, given the bank's rapid growth and need for new capital.

"We got a great rate, improved our ROE and didn't dilute our common shareholders," Rosenthal points out. "And Howe Barnes' execution was quick and flawless. They're consummate professionals."

Howe Barnes also provides valuable liquidity and stability to a thinly traded stock by making a market in it, using its own capital to buy and hold shares offered for sale until a buyer is found, usually within hours but sometimes within several days, Rosenthal adds. "They have a large base of sophisticated investors who like community bank stock. And that market-making keeps the price from being whipped around by trading events."

Finally, Howe Barnes provides valuable research on St. Joseph Capital, even though the average trading volume is 3,000 shares a day and there are many days when no shares trade, Rosenthal explains. "Their analysts are a bunch of smart guys with great financial modeling skill, which shows in their excellent earnings estimates," he says. "Investors follow their research, and their coverage of our bank gives us visibility."

A Host of Choices

ICBA Securities providing a channel to investment banking services for community banks is a positive development, says Howard B. Levenson, chairman of the $600 million-asset Southwest Community Bank of San Diego, but he thinks it stops short of rivaling sliced bread. Investment banking services are almost always awarded after competition and negotiation.

"Directors and officers have a fiduciary responsibility to seek

FOR MORE INFORMATION

To learn more about the ICBA-Howe Barnes investment services program, or for any bank portfolio investment advice, contact ICBA Securities at (800) 422-6442.
the best services at the best prices, and investment banking services don’t usually come with a sticker price,” Levenson observes. “It takes work to identify the best provider.”

So community bankers should and usually would talk with more than one of the 25 to 30 large and mid-sized investment banking firms that offer services to community banks, he concludes, regardless of whether one of them holds preferred provider status with a trade association.

Levenson is chairman and CEO of a community bank and also chairman and CEO of an investment banking firm, Western Financial Corp., which provides investment banking services to California community banks. His bank also uses Howe Barnes for investment banking services. The bank has more than 600 shareholders and approximately 3.6 million shares of common stock outstanding, with average trading volume of 2,000 to 4,000 shares a day.

Bankers will continue to seek competitive offers from other investment banking firms, concedes Bill Sammon, Howe Barnes’ director of capital markets and the liaison with ICBA Securities. “We’ll have to win the business in most cases,” he says. “It’s the bankers’ fiduciary duty to test the market. But community bankers will have the comfort knowing that their trade asso-
ciation picked us and monitors banker satisfaction with our performance. We have a particular incentive to keep their members happy.”

**Bulking Up**

Howe Barnes is gearing up to please ICBA bankers and bulking up to handle an expected increase in business. “We’re busy scaling up our business, adding traders, salesmen, research analysts and investment bankers to support the broader market ICBA brings us,” Sammon says. “We will have an incentive to be especially responsive to their members and offer a higher degree of service.”

Despite Howe Barnes’ Midwestern roots, the company’s links to institutional investors and its equity research nationwide make it equally effective for community banks in other regions, Sammons insists. “Our research has helped us build a coast-to-coast institutional base,” he explains. “We can sit in Chicago and distribute across the country. We’re now trading stocks in 33 states and soon will be active in all 50.

“It’s part of our mission to help independent community banks stay independent if they wish by giving them the same access to the capital markets that the largest banks enjoy,” Sammon says. “We’re here to level the playing field.”

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