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U P D A T E

News of Developments in the Financial Sector and Related Areas

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Branching Trend Into Metropolitan Areas

The trend in bank branching has been to metropolitan areas. In connection with this trend, we contacted a number of people involved in the banking sector with a statement and question.

In our dealings with community banks, there appears to be a trend for banks to branch into larger metropolitan areas. Is this in line with what you are seeing?

A compilation of the responses that were received to our question are as follows:

- I would say yes. It's always greener in the other pasture. Basically, a decision to go where the growth is. I have heard recently that the Arkansas State Bank Department has an unwritten rule that to open a full service branch in central Arkansas, the bank must have $15 million in capital. I took that as their way of slowing down some of what you talk about.

- I am hearing the same thing, and it's driven primarily by the need for loans. In most of those markets, recent acquisitions have made it possible for community banks to pick up some quality lenders.

- Indeed! Banks of all sizes are seeking loan growth. Loans are the key to profitability in this interest rate environment. The metro areas simply offer many more lending opportunities and are the target of most all banks these days. Conversely, banks in rural areas with very low loan-to-deposit ratios have become hard to sell. Even if they are reasonably profitable and clean, there is often no interested buyer. This is a change from earlier cycles when low-cost deposit banks could always find a buyer.

- Yes. We have seen quite a bit of this in the past few years as rural banks struggle for loan demand. Loan demand has been a concern for everyone but it is more pronounced at most rural banks. I believe the rural banks are also doing this to gain access to long-term management talent as they look to replace aging executives as they struggle to attract talent in rural settings. This may also may make them a more attractive merger candidate.

- Area banks branching into metropolitan areas is a huge trend in Louisiana. If you haven't looked at a Louisiana Bank Directory in a while, look at Shreveport-Bossier, Monroe-West Monroe, Lake Charles, Lafayette, and particularly Baton Rouge. It's easier to count the rural community banks that have not branched into metro areas and with serious brick and mortar.

- Yes. They are all flush with deposits and trying to move into metro areas where they can get loans. Some branching and some open loan production offices.

- Pretty much so. Occasionally someone will bring up a smaller community bank in a rural area if they think it would fit in their strategic plan/model long term. Also, Jonesboro seems to be the next northwest Arkansas. Everyone wants to be there.

- As always, you are right on target. Trouble is, for rural community banks, the Arkansas State Bank Department usually requires them to up their capital to $15 million if they are a small bank.

- Makes sense if you can hire good/quality lenders in larger markets (at reasonable salary).

- Good to hear from you, and yes I agree they are all trying to get out of rural areas. I also believe they will find it difficult to break in to those markets and the cost of entry will far exceed what benefit they may enjoy. It is a tough market with too many players.

The responses are informative particularly with loan growth continuing to be a significant challenge for banks. External forces such as bank regulatory agencies, interest rates and the economy may play a role in the trend going forward.

Subordination, Nondisturbance and Attornment Agreements

Subordination, nondisturbance and attornment agreements are often referred to as *SNDA agreements.* They are generally utilized in connection with real estate leases when there is a mortgage by the landlord to a lender. SNDA agreements provide protection for the lender in that the lessee agrees to subordinate its interest to the lender=s mortgage and in the event of foreclosure by the lender of its mortgage, the lessee agrees to attorn to the new owner and recognize the new owner as the landlord under the lease.

SNDA agreements also provide protection for the lessee in that the lease will continue in the event of a foreclosure and a new owner, and the lessee=s use of the premises will not be disturbed or impaired as a result of lessee subordinating its interest under the lease to the mortgage of the lender. For the benefit of the lender, the SNDA agreement will provide that the lease will be subject and subordinate to the mortgage, the lien imposed by the mortgage and all advances under the mortgage. For the benefit of the lessee, the SNDA agreement will provide that a new owner will not terminate or disturb the lessee=s possession of the premises under the lease except in accordance with the terms of the lease, and the new owner will be bound to the lessee under the terms and conditions of the lease.

SNDA agreements should also provide that in the event of a default under the lease by the landlord, that the lessee will provide notice to the lender in order to provide the lender an opportunity to cure the default by the landlord. SNDA agreements provide important protections to both a lender and to a lessee and should be utilized in the lease of premises subject to a mortgage.

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