

# Bank Strategy Insights

FINANCIAL SERVICES GROUP | BALANCE SHEET STRATEGIES

August 14, 2020

## Guest Contributor Series: Optimizing the Capital Structure

Please see this week's [Rate Sheet](#) and [Yield Curve Opportunities](#).

The stock market this week took a positive stance, erasing most of its losses suffered since the start of the pandemic. Meanwhile, President Trump announced a series of Executive Orders that may provide some relief while difficult negotiations continue on the next round of fiscal stimulus. Filings for unemployment benefits fell to the lowest level since March, coming in at 963,000 this week. Continuing claims also decreased, though both figures remain higher than any numbers seen in the financial crisis of the last decade.

In our survey of management teams earlier this summer, more than 50% of respondents were pessimistic or very pessimistic about business conditions over the next year. We often try to highlight the few pockets of opportunity in this current landscape that allow banks to turn a difficult operating environment into strengths. On the micro-level, for example, we've advised banks to take advantage of the bid for Agency MBS to bolster capital with gains trades, and emerge with a better-structured, higher-credit investment portfolio by offsetting losses in other sectors. This week, we're happy to present the first entry in our Guest Contributor Series, where the Piper Sandler FSG Capital Raising Group helps identify a low after-tax cost hedge against uncertainty:

---

### Recent Activity

In our effort to highlight opportunity in the current environment we would like to bring attention to the bank subordinated debt market. As has been the case in recent years, year to date bank sub-debt issuance has been extremely strong and shows no signs of slowing down in the foreseeable future. As the market leader in community bank sub-debt issuance, having completed 179 subordinated note or senior note transactions since January 1, 2016, representing approximately \$11.1 billion for our clients and over 60% market share<sup>1</sup>, Piper Sandler's purposefully configured execution and distribution platform stands ready to provide prospective and serial issuers ready and efficient access to the debt capital markets.

### Strategic Rationale

For bank leadership, the current economic environment has made capital and strategic planning more important and yet more challenging than ever before. Driven by macro-economic, credit, and public market uncertainty, strategic planners need alternatives that provide certainty, stability, and a cost effective hedge against the risk of missed opportunity and unforeseen difficulty.

Sub-debt is unique in its ability to provide the certain and stable hedge sought by planners. By issuing sub-debt, banks of all types (public or private, stock or mutual, large or small) can build the solid strategic foundation that they seek while taking comfort in the knowledge that they have done so in a cost effective manner. As non-dilutive, low-cost regulatory capital<sup>2</sup>, issuers of sub-debt have the ability to use the new capital in the pursuit of a broad range of strategic alternatives including organic growth, acquisitions and capital structure optimization/earnings enhancement strategies or to ensure that their institution is in a position of strength to address unforeseen challenges should they arise.

## Market Conditions

Owing to years of evolution and growth, the new issue market for bank sub-debt has never been more efficient or accessible. The confluence of a thriving ecosystem of buyers, low transaction costs and historically low benchmark rates makes now an ideal time to consider incorporating sub-debt into a bank's strategic plan or to review the terms of outstanding paper to see if better execution can be achieved.

## Considerations and Concluding Thoughts

Though planners may perceive the process of issuing sub-debt to be time consuming and expensive, experienced advisors can meaningfully impact the efficiency of the process and drive optimal execution. If issuing sub-debt, for the first time or to refinance existing debt, is something you would like to learn more about, we encourage you to reach out to your Piper Sandler representative or the Piper Sandler FSG Capital Raising Group at 212.466.7806.

---

As with any other complex strategy, the first step is to get management and the Board educated on the process. Then the institution can make a more informed decision on whether to execute. Back in February 2020, we explored the numerical strengths and weaknesses of various capital structures, in our piece "Diversifying Your Capital Stack Can Create Value." Although much has changed since then, subordinated debt remains, more than ever, an important part of the capital structure to better prepare in case an opportunity or difficulty arises.

<sup>1</sup> Source: Piper Sandler Syndicate Desk, Bloomberg. Deal count includes nationwide subordinated debt or senior note offerings for Community Banks reported by Bloomberg; Community Banks defined as banks or bank holding companies with less than \$40 billion in assets. Excludes transactions less than \$5 million in offering size; as of 8/13/20.

<sup>2</sup> Eligible to meet regulatory requirements for Tier 2 capital.

## Other Thoughts from Around the Firm

- **FinTech Introductions:** We provide financial services companies with introductions to leading financial technology providers. Introductions are predicated on an understanding of your needs, refined by our deep knowledge of the sector and filtered for solutions that are actionable, enterprise ready, and cost-effective.
- **PPP Loan Buy/Sell Programs:** In addition to providing technology-enabled servicing and forgiveness solutions, the FSG Solutions Group can assist market participants in the buying and selling of PPP loans.
- Please contact [FSG-Solutions@psc.com](mailto:FSG-Solutions@psc.com) to discuss your financial technology needs as well as our PPP-specific tech solutions and loan trading capabilities.

**CONTACTS****Scott Hildenbrand**

Managing Director

Head of Balance Sheet Analysis and Strategy

Head of Piper Sandler Hedging Services

212 466-7865

**Jim Armstrong**

Managing Director

212 466-7978

**Jean Bonatucci**

Managing Director

212 466-7793

**Matt C. Brunner**

Managing Director

913 345-3371

**Mary Marshall**

Managing Director

212 466-7890

**Jorge Puente**

Managing Director

212 466-7835

**Ryan Smith**

Managing Director

212 466-7966

**Leah J. Viault, CFA**

Director

212 466-7769

**Kris E. Johnson, CFA**

Vice President

612 303-0608

**Kelly Hughes**

Assistant Vice President

212 466-7856

**Kevin Wanke**

Assistant Vice President

212 466-7988

**Hayes Bynum**

Analyst

212 466-7913

**Sarah De Vries**

Analyst

612 303-0616

**Matt Earley**

Analyst

212 466-7816

**Hill Fleet**

Analyst

212 466-7825

**Meet our Team**

## GENERAL INFORMATION AND DISCLAIMERS:

This report has been prepared and issued by the Balance Sheet Analysis and Strategy (BSAS) group of Piper Sandler & Co., a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. Swap introducing broker services are offered through Piper Sandler Hedging Services, LLC, registered with the Commodity Futures Trading Commission and a member of the National Futures Association.

The information contained in this report (except information regarding Piper Sandler & Co. and its affiliates) was obtained from various sources that we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information and opinions contained in this report speak only as of the date of this report and are subject to change without notice.

This report has been prepared and circulated for general information only and presents the authors' views of general market and economic conditions and specific industries and/or sectors. This report is not intended to and does not provide a recommendation with respect to any security. This report does not take into account the financial position or particular needs or investment objectives of any individual or entity. The investment strategies, if any, discussed in this report may not be suitable for all investors. Investors must make their own determinations of the appropriateness of an investment strategy and an investment in any particular securities based upon the legal, tax and accounting considerations applicable to such investors and their own investment objective. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including any securities mentioned in this report. Nothing in this report constitutes or should be construed to be accounting, tax, investment or legal advice. Neither this report, nor any portion thereof, may be reproduced or redistributed by any person for any purpose without the written consent of Piper Sandler & Co.