BANKING & FINANCE

What's Behind the Upswing in Bank Mergers?

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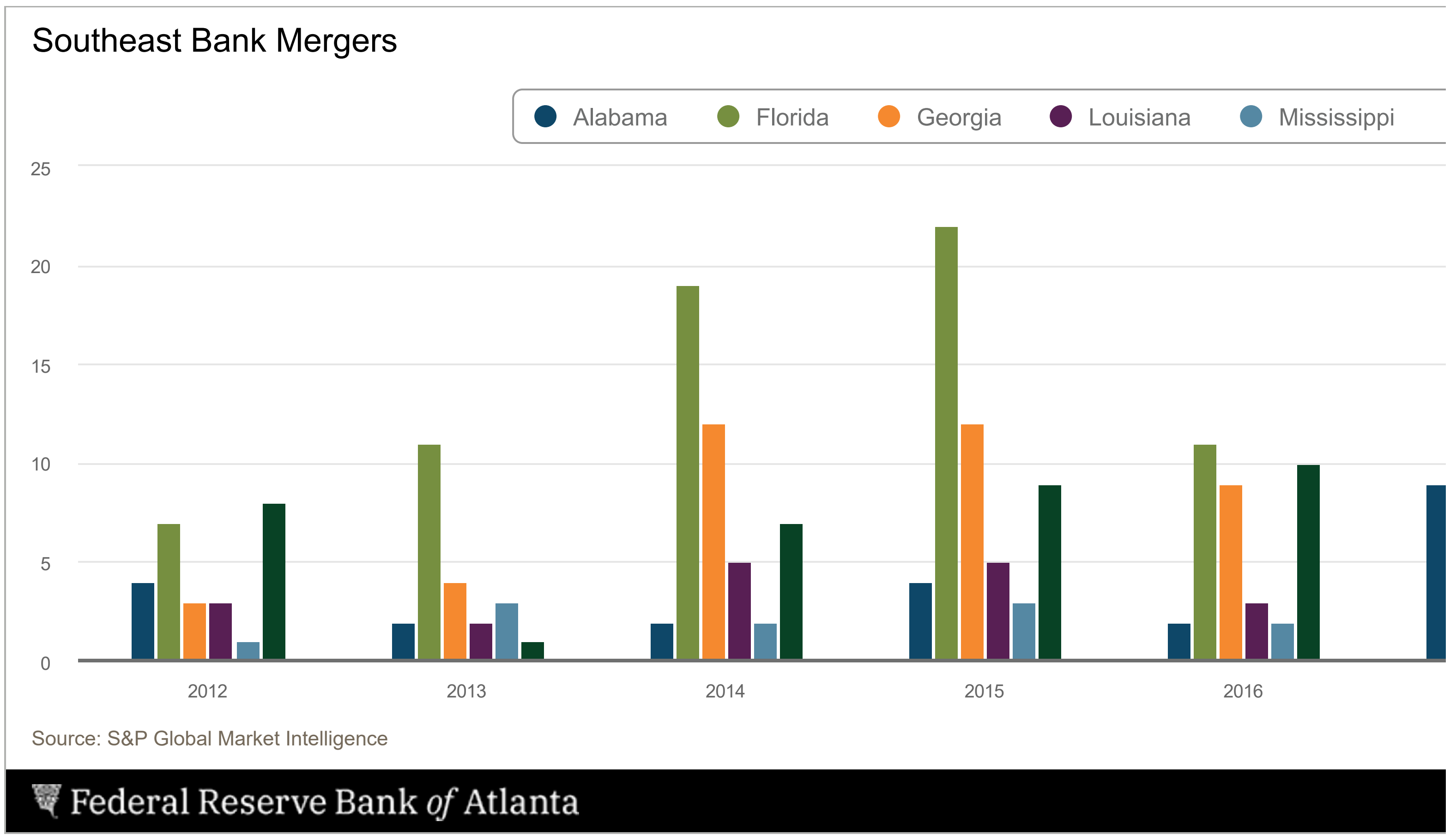
Bank mergers are growing. In 2017, the total number of U.S. bank mergers came to 302, up from 296 the year before, according to data from S&P Global Market Intelligence.

Kathryn Haney, a director of examinations in the Federal Reserve Bank of Atlanta's Supervision, Regulation, and Credit Division, said activity in the Southeast has been most pronounced among regional and larger community banks. Haney's group processes mergers and acquisitions (M&A) applications for financial institutions the Atlanta Fed regulates.

"The industry is continuing to strengthen," she explained. "A lot more banks are now able to do acquisitions."

Strong southeastern markets

"There are some really strong markets in the Atlanta Fed region," noted Jonathan Hightower, a banking lawyer at Bryan Cave LLP in Atlanta. The Atlanta Fed's District encompasses Alabama, Florida, and Georgia and sections of Louisiana, Mississippi, and Tennessee. Hightower said Florida, Atlanta, Savannah, Birmingham, and Nashville have favorable demographic profiles that seem poised to grow. It's no surprise that acquirers from markets that aren't growing as fast would look to the Southeast, he added.



The region was the setting for some of the nation's biggest bank mergers last year. Pinnacle Financial Partners, based in Nashville, expanded its reach beyond Tennessee in 2017 by buying BNC Bancorp in High Point, North Carolina. IBERIABANK of Lafayette, Louisiana, announced two acquisitions, bolstering its presence in the Miami area with the purchase of Sabadell United Bank from Spain's Banco de Sabadell in July, and following with an agreement to buy smaller Gibraltar Private Bank & Trust in Coral Gables, Florida, in October.

Southeastern banks drew buyers from outside the region as well. For example, Valley National Bancorp of Wayne, New Jersey, purchased USAmeriBancorp Inc. of Clearwater, Florida. Stonegate Bank in Pompano Beach, Florida, was bought out by Home BancShares of Conway, Arkansas, in September.

Haney said banks came under pressure during the financial crisis when borrowers started to have trouble making their loan payments. In response, banks increased loan-loss reserves, which reduced their profitability and capital. As a result, fewer banks could afford to do M&A transactions.

Another hurdle came in the form of worsening supervisory ratings. The Sixth District was hit hard by bank failures during that time, and the troubles in the industry suppressed merger activity. Many banking companies that were performing well stayed on the sidelines for traditional M&A deals but pursued failed bank acquisitions from the FDIC, Haney said.

Why merge now?

With the economy now in recovery mode, some banks in the Sixth District are looking to M&A activity for a variety of reasons: increased loan and deposit growth, a desire to solidify or expand their geographic footprint, acquisition of management talent, or expansion into new lines of business, Haney said. The increased bank mergers reflect the goal of some banks to gain regional prominence.

Haney noted that banks in the region that are led by executives who have served long tenures may not have a viable succession plan and may see today's economy as a good time to be bought out by comparable-size or bigger institutions.

Smaller institutions have cited rising costs to comply with increased government regulations as a catalyst for merging with another institution. The low-interest-rate environment of recent years could also be having an effect, as banks generally find it more difficult to increase their earnings. "Some bankers tell us it's been challenging to maintain sustained profitability due to narrowed interest-rate spreads and higher overhead expense," Haney said.

Some banks see mergers as a way to address product gaps in their own offerings and expand into new business areas such as wealth management. "Rather than start their own wealth management department and then try to staff it, it might be easier to find a target bank that has already established one and is successful with it," Haney said.

As mergers pick up, Haney said banks are showing they have learned some lessons from the financial crisis. For one thing, when examining a target company's records during the due diligence process, some acquiring banks are paying close attention to issues such as Bank Secrecy Act/Anti-Money Laundering risk and consumer compliance, and whether the sought-after bank has met its obligations under the Community Reinvestment Act, which encourages lending in low- and moderate-income communities. "Problems around those issues can derail potential mergers because they can take time to address and resolve," Haney said.

Banks that are targets for acquisition are also being careful, she added. Companies that agree to be bought out these days increasingly want some assurance that the merger will be completed. "Targets want the acquirers to be able to finish the deal," Haney said.

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