

## SPORTS, BANKING & PRIVATE EQUITY

by [Steve Brown](#)

A Gallup poll conducted at the end of last year found that the top three sports Americans most enjoy watching are football (41%), baseball (10%) and basketball (9%). It is interesting to note that Gallup has been taking this poll since 1937 and while baseball was on top through 1972, football eventually surpassed it to move to the top and it has continued to widen its lead over the years. We just think that is interesting.

Another very interesting thing that happened yesterday was the seizure and sale of BankUnited FSB (\$12.8B, FL) by the FDIC to a consortium group of private equity investors. There are many interesting twists and turns to this story, so stay with us as we attempt to take you through them all this morning. Yesterday's closure was not only "odd" because it occurred on a Thursday (vs. a more typical Friday), but that isn't even half of the story.

**BankUnited Failure:** The thrift had 85 branches; its closure marked the 34th of the year nationwide; it was the 4th largest thrift ever to fail; it was the 3rd closure this year for Florida; it had been under a C&D since Sep. 19 2008; it was hit with a prompt corrective action notice on Apr. 14 that gave it 20 days to raise capital or sell itself off; it was critically undercapitalized (Tier 1 capital at the end of 4Q was a negative 0.2%) and it will be the 2nd costliest bank failure of the banking crisis at an estimated \$4.9B (topped only by IndyMac at \$11B).

**Winning Bidder:** Even more interesting, a nationwide search by the FDIC and bidding process brought in an unusual winning bidder - a consortium of private equity firms that included: John Kanas, W.L. Ross, Carlyle Investment Management, Blackstone Capital Partners, Centerbridge Capital Partners, LeFrak Organization, The Wellcome Trust, Greenaap Investments and East Rock Endowment Fund. That private equity group will inject \$900mm in fresh capital and has signed a loss sharing agreement with the FDIC that covers \$10.7B in assets. Details of the sharing agreement were not disclosed; however, when private equity firms bought IndyMac, the FDIC agreed to cover 80% of losses.

**Kanas & Strategy:** The new CEO of BankUnited is John Kanas. Kanas was the former CEO of North Fork Bank, which he built into 350 branches and \$60B in assets before selling to Capital One in 2006 for \$13B. Kanas is an industry veteran who knows what he is doing, is well respected and definitely has a strategy. So far, he has indicated the strategy will be to build small business lending, focus on retirees as a deposit base, add branches in FL and use the new bank as a launching pad to acquire failed community banks in the state. We'll see how things develop, but private equity funded deals have certainly changed the landscape.

**Private Equity:** For those less familiar with private equity firms, they get their name because they are companies that do not publicly trade on a stock exchange. Their funding typically comes from institutional and wealthy investors. These firms most often get involved by investing capital into a mature company (BankUnited) that is spinning off cashflow and they quickly employ leverage (FDIC sharing agreement) to increase returns. These firms have a very clear cut strategy and the best ones execute that strategy flawlessly. They buy undervalued companies, fix them up, add leverage and sell them off in 3Ys to 5Ys. Their goal is to recoup a high return by selling the company for cash or stock in another company, distributing back the cash investment through dividends, or taking the company

public through an IPO. The goal, however, remains the same - sell the company at a profit from the day the capital is injected. Private equity firms are holding an estimated \$1T in investable cash right now according to estimates and a banking industry "roll up" is one strategy that seems to make sense given IndyMac and BankUnited it appears.

We'll have to see what impact private equity will have on the banking industry, but suffice it to say things have changed significantly and a focus on cashflow profitability has now moved into the top spot.

## **BANK NEWS**

### **Rural Banking**

Community banks compose more than 66% of the 9,800 branches located in rural communities with populations under 10k.

### **Job Creation**

Community banks account for 33% of loan volume to small businesses. These loans help businesses provide the majority of new jobs created in the past 10Ys.

### **Farmland**

Agricultural land classified as "good" saw a quarterly 6% decrease in its value, the Seventh Federal Reserve District concludes from a survey of 227 bankers. Respondents generally did not anticipate an increase in the following quarter, compounding fears of the mere 2% 1Q year-over-year increase in District farmland values.

### **Bailout**

GMAC received \$7.5B from the Treasury to expand auto lending and will be allowed to issue under TLGP. At this point, the Treasury has invested \$13.5B into the company.

### **Beware, Banks**

Fraud-related issues are responsible for 21% of all reports, up from 14% in 2007, according to Network, a compliance hotline that covers about half the Fortune 500. The FTC also reports recent increased instances of fraud, especially with regards to credit card refinancing scams.

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