

We Have Merged Now Who Are We

by [Steve Brown](#)

Everyone of a certain age recalls the song Who Are You by the English rock band, The Who. While the title might seem like an introduction coming from a band of the same name, it was actually the 8th studio album of the Who. When released in 1978, it was during a time of two competing trends in rock - progressive & punk. Songs on the album were an effort to bring the styles together, while other bands of the time were going one direction or the other. It saw huge success, reaching #2 on the charts because it drew from fans of both styles.

Many banks are going through similar efforts to bring together divergent cultures following mergers or after being acquired. After the initial shock, the inevitable transitions of core systems and IT, changes in personnel and reporting structure, then the final question in the bank becomes "Who Are You". Teaming up with another bank can make sense for some community banks given the cost of regulation and the difficulty of creating organic growth in most markets, but it also has risks. While acquiring banks may profess that everything will be the same, anyone who has been through an acquisition knows nothing will be the same (not internally and not for customers). Organizations who take on their transition with planning and conviction will do far better than those who play it by ear and develop the program as they go.

Internal transitions are a challenge for staff, but the most important transitions to plan and execute well are those that involve the customer experience. The intrinsic value of a bank is in its customer relationships and banks must do everything within their power to preserve them. It's crucial to communicate effectively from the moment of the announcement. You also don't want your customers to hear it on the news before they receive some kind of notification from you--do so quickly as well when changes in services will affect their experience.

It is also important to spend time determining the image and focus of the new bank. We've studied a merger that has made a successful transition of style and found a few lessons. Korean carmaker Kia was acquired by Hyundai in some time ago in 1998--but given the length of product cycles in the car industry, not so long ago. Kia was known for its econo-boxes devoid of styling and of questionable quality. Recently, Kia brought a 2015 model to the Los Angeles Auto Show with eye-catching design and a quality level comparable to the BMW 5 Series or Mercedes S Class. Kia's path began a new direction when the company hired a designer from Audi and shortly thereafter launched the cutting edge Soul. Kia still makes econo-boxes but they have been able to completely remake their style and image.

The move by Kia into the upper end market is not only a continuing effort to upgrade the level of the existing brand, but also an acknowledgement that upcoming Chinese car manufacturers are likely to soon dominate the market for budget models. In essence, Kia's new image positions the company for the changing dynamics of the market going forward.

If your bank is going through a transition or is considering one, spend some time crafting the image the new bank will use going forward, and make sure to communicate both internally and externally to attack challenges head on as they surface. No matter the song you sing, knowing who you are will help ensure ongoing success.

BANK NEWS

M&A

Iberiabank (\$13.1B, LA) will acquire Teche Federal Bank (\$854mm, LA) for about \$161mm or roughly 1.7x book.

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TriSummit Bank (\$262mm, TN) will acquire Community National Bank of the Lakeway Area (\$107mm, TN) for an undisclosed total.

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Fidelity Homestead Savings Bank (\$832mm, LA) will acquire residential mortgage lender NOLA Lending Group LLC for an undisclosed sum.

Earnings

Wells Fargo reported full year net income of \$21.9B, up 16% from 2012. Other metrics on a year over year (YOY) basis: ROA 1.51% (+7%); ROE 13.87% (+7%); efficiency ratio 58.5% (flat); revenue (-3%); loans (+4%); NIM 3.39% (-10%); allowance to loans 1.81% (-17%); loans to small business customers \$18.9B (+18%); active online customers 22.9mm (+7%) and active mobile customers 11.9mm (+27%), FTE employees 264,900 (-4%). JPMorgan Chase reported full year net income of \$17.9B, down 16% from 2012. Other metrics: ROA 0.75% (-20%); ROE 9.0% (-18%); efficiency ratio 67.2% (-1%); revenue (-0%); loans (+1%); NIM 2.64% (+2%); allowance to loans 2.02% (-20%); loans to business customers \$18.6B (+1%); and active mobile customers 15.69mm (+26%), FTE employees 251,196 (-3%).

Muni Advisor Delay

The SEC has delayed until Jul 1 the compliance date for registration as a municipal adviser, as the applicability and scope related to banks is reviewed.

AML Crackdown

The Wall Street Journal reports the Justice Department is warning bankers it plans to take enforcement actions against banks that aren't doing enough to shut down money laundering in the financial system. The assistant attorney general of the criminal division indicated "there are still banks that haven't gotten the message."

TRUPs Change

Late yesterday, regulators issued guidance that exempts from the Volcker Rule all collateralized debt obligations backed by trust-preferred securities that were issued by banks with less than \$15B of assets. Problem solved.

Small Biz

A Borrell Associates study finds 83% of small businesses use Facebook vs. 64% 2Ys ago and 53% advertise on the site.

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