Follow The Money And M&A

by Steve Brown

"Follow the money" is a catch-phrase that reminds us to look beneath the surface to find the origination of things, whether it is the cause of specific incidents or the motivation that drives the recommendations of experts. The phrase became a part of the vernacular following the 1976 movie All the President's Men. Robert Redford portrayed Bob Woodward of the Washington Post in the pursuit of the Watergate scandal that engulfed the nation during the 1970s. Picture the scene in a shady parking garage with Redford searching for clues to substantiate the Watergate story. As his informant disappears into the gloom, he whispers one phrase to Woodward: "follow the money".

Banking is usually not quite as dramatic perhaps as a Dustin Hoffman and Robert Redford movie, but there has certainly been some adventure in the last few years. Since then, as credit problems have cleared up in most markets, banks now spend their time with more mundane concerns like shrinking margins and controlling costs. There is an unfortunate reality in banking that many costs are roughly the same number of dollars whether your bank has $150mm or $500mm in assets. Expenses and a tepid economy have caused some banks to consider merging.

In an informal poll at a community banking conference recently, bankers were asked how many of the few hundred in the room were interested in buying another bank. As you might expect, the vast majority of hands went up. But, when the question was changed to "how many of you want to sell your bank," there were very few takers. This could have to do with the nature of bankers who attend conferences, but it was more likely about the fact bankers want to grow much more than they are ready to look for a new job, so they want to acquire and not to be acquired.

When it comes to M&A, we wonder whether this is really something every bank should consider or whether it is simply being promoted by those who stand to benefit the most financially from such transactions. Recently ICBA president Cam Fine raised the question of where sell recommendations were coming from and posited that much of this advice could be traced to investment banks or institutional investors looking to profit from the activity.

We too have been monitoring this discussion and the drumbeat in banking journals and conferences from the "wise voices" who have proclaimed banks under $1B in assets just can't survive and should move towards merging. We think this is hooey and point out that while synergies can arise from such events, the reality of mergers is that they can also be very complex, change your bank culture and often do not work out as expected. A study by consulting firm, Booz-Allen found only 16% of even deals categorized as the best increased shareholder value by 44% over industry peers, while the same percentage lost shareholder value by 44% relative to industry peers and just over 51% underperformed industry peers despite the merger. In short - caveat emptor - let the buyer beware.

Another interesting analysis when it comes to M&A is to look at the number of institutions that merged in a given quarter vs. the total number of institutions outstanding from the prior quarter to calculate a percentage. In the Q1 for example, the FDIC reports 74 mergers against a population from the prior quarter of 6,812 means about 1.1% of institutions went away in that quarter. Looking back in time, you see about that same percentage level, so it usually makes a good rule of thumb when projecting just how much activity to expect.

Especially in highly competitive markets, banks have to consider multiple factors before merging as it could disrupt market share. Customers can be confused and wonder if the new brand will continue to offer the service they have relied upon, as competitors in the market seize upon a chance to acquire customers from a brand in limbo. This can all lead to turmoil and a bank can lose key personnel.

Understand that we are not against mergers and acquisitions and there are many that are logical. However, before banks go too far down the path, it makes sense to follow the money as you carefully consider how doing so may impact your bank's broader mission and objectives.

BANK NEWS

M&A

National Bank of Commerce ($751mm, AL) will acquire United Legacy Bank ($229mm, FL) for an undisclosed sum. National Bank picks up 4 branches in the transaction.

Loan Change

The Wall Street Journal reports Wells Fargo will now require customers who get home equity lines of credit to pay both principal and interest, as it discontinues offering interest only loans.

ID Theft

Officials in CT say they have uncovered a very serious data breach that may be the first known case of ID theft related to Obamacare enrollment. Police found notepads with personal information on them for about 400 people, along with paperwork and notes in a backpack on the street, which seem to indicate it is stolen information from Access Health CT.

Borrowing More

The latest Fed report on consumer borrowing finds that credit jumped in Apr to a 10%+ annual rate, primarily due to people using their credit cards more.

Mobile Branch

PNC has confirmed it is driving around in a customized car with bank logos as it tests whether the approach will work to get people signed up for new accounts.

New Delivery

Google has announced it will offer overnight package delivery in CA for products ordered from participating stores. Watch out FedEx and UPS.