



## Are You Ready if a Private Equity Firm Shows Up at Your CFI?

📌 industry update economy

**Summary:** Private equity firms and other private investors are showing more interest in CFI deals. We detail what CFIs should consider in the event a PE offer arrives and how to prepare if your CFI accepts a PE investment.

Although they are less popular now, soap operas in their heyday were watched by millions for decades. ABC's "All My Children" ran for 41Ys, and "As The World Turns" ran for 54Ys. Some of the characters remained on the show for decades-long storylines that were serious time investments for both their actors and viewers to keep up with.

In the private equity (PE) world, another type of investment is ramping up – with community financial institutions (CFI). PE firms commonly experience a delay between securing investment commitments and deploying the capital, known as "dry powder." As of December 2023, PE firms were sitting on [a record \\$2.59T](#), prompting them to search for new ways to invest all that cash.

The move into banking by PE firms and other private investors has begun, with some multi-million-dollar deals recently announced. PE investment can come in a variety of forms. For example, Genesis Bank of California recently [secured a \\$500MM commitment](#) from PE firms to acquire other financial institutions in their region. Last summer, a merger of Banc of California and PacWest included a [\\$400MM PE investment](#).

If a PE firm comes knocking at your CFI's door, are you ready to respond?

For institutions that have faced liquidity issues or challenges keeping up with rapidly evolving technology, the infusion of [cash from a PE firm](#) or some other private investors may seem like a godsend. Before considering PE investments, it's important to look at other historical examples of when PE firms reached extensively into the banking world: namely, the 2008 financial crisis.

### PE Investment After the 2008 Crisis

According to one [FDIC paper](#) that looked at the role of private equity in the aftermath of the 2008 financial crisis, the FDIC found that PE investment was particularly helpful for distressed or underperforming financial institutions. Financial institutions that received PE investment performed better than those that didn't, resulting in greater financial stability for their local economies.

Due to the "higher risk appetite" of PE investors, they tend to obtain riskier acquisitions than other financial institution acquirers. This has paid off in the past: PE-acquired financial institution branches that have failed were less likely to shutter permanently than bank-acquired ones, and PE-acquired financial institutions enjoy around a 35% increase in growth.

Not all PE bank investments during that period turned out well, however. Some PE firms lost money investing in troubled financial institutions, and there have been previous concerns regarding PE investors taking advantage of financial downturns in order to target "high-quality" assets.

In addition, there is no current banking crisis that warrants Fed action to encourage new investment from PE firms. No one expects a boom in PE investment that is anything like what happened after 2008.

### Considering a PE Offer

There is more of a chance than usual that you will encounter a PE firm curious about CFIs right now.

If there is a chance of a PE takeover offer, you might want to ask these important questions:

- **Do you really need the money?** Discuss with upper management and your board whether funding from a PE firm or other private investor will help you achieve your goals for your customers. Are there other ways for your CFI to secure the funds, or is the PE firm the best option?
- **How much control are you willing to cede?** PE firms often want a majority stake in a company they acquire to retain a certain level of control. According to a study conducted by the Federal Reserve Bank of Boston, Kansas University, and Stony Brook University, [the average share that PE investors own is 24%](#), with a range from 2% to 100%.
- **Are you in agreement with the PE firm's strategy?** PE firms make money by extracting value from a company by reselling all or part of it at a later date. Are you prepared to accept what the PE firm wants to do?
- **What do you need to know about the PE firm?** Before deciding, be sure to do your due diligence and involve your risk management team. The more you know about the PE firm's history, its experience in the financial sector, and its strategies, the more likely you are to be comfortable with taking them up on the offer or turning them down.

### Preparing for a PE Investment

If a PE investment is exactly what your CFI needs, and you're considering the cash injection and guidance that a PE investment could bring, there are ways to prepare. PNC Bank [has developed a tip sheet](#) for businesses preparing to accept a PE investment — particularly if the PE firm wants to take a majority stake in your financial institution.

Here are a few of those insights:

1. **Have representation from an experienced M&A advisor.** Their expertise will help you assess the quality of your offers and navigate the terms to help you achieve the maximum outcome.
2. **Get up-to-date audited financial statements.** This will ensure that the process or potential acquisition goes through smoothly, as the PE firm may require a financial audit before moving forward.
3. **Prepare solid earnings statements.** Having earnings statements on hand before negotiations puts you at a key advantage for better valuation.
4. **Take steps to retain key employees.** You may need to provide incentives to make sure key employees stick around if the deal becomes an acquisition. If they do stay on board, they can provide much-needed institutional knowledge to the PE investor, as well as ease customers through the transition.

PE firms have been shopping financial institutions lately as investment opportunities. If you think your CFI might be on their radar, make yourself aware of what such an investment might entail and what you need to do if it arrives.

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ECONOMY & RATES

Rates As Of: 03/11/2024 08:17AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.46	0.01	0.06
6M	5.34	0.04	0.08
1Y	4.94	-0.05	0.18
2Y	4.52	-0.10	0.27
5Y	4.08	-0.17	0.23
10Y	4.10	-0.15	0.22
30Y	4.27	-0.11	0.24
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	OBER	
5.31	8.50	5.31	

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