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Bank, Thrift & Specialty Lender - Industry News

Green Shoots or AstroTurf?

BLOG

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By [Nick Gorski](#)

At the 2009 [SNL Bank M&A Symposium](#), it was not just the outlook for mergers and acquisitions that looked bleak.

Several panel participants commented on the state of the U.S. economy, warning that it is in worse shape than generally believed. [BankUnited](#) Chairman and CEO John Kanas said consumers are "broke" and "overleveraged," compared to previous cycles. Without the consumer to support businesses, he said, the structures that the government has erected through stimulus packages and other programs will not be able to hold up the economy.

J.C. Flowers & Co. LLC managing director John Oros noted that the sudden decline in tax revenues across all 50 states, along with the widespread decline in home prices, was unprecedented since the great depression.

The green shoot guys in the banking industry are a couple of years too early, Oros said.

David DeNunzio, vice chairman, mergers and acquisitions at Credit Suisse, said it is still too early in the cycle to make broad statements about where the downturn will head. He did note, however, that the recession will be longer and deeper than many expect, and that it will have profound effects on the banking industry.

Banks may not recover as quickly as the market is predicting, and there may be a second downturn in the economy as well. Kanas said there will likely be "massive inflation" that drives interest rates higher. When that happens, he said, "banks will take it on the chin again." Additionally, he warned that the coming downturn in commercial real estate will be "devastating" for regionals, which have more exposure to that sector than the largest banks.

For community banks, there may be even more trouble. Castle Creek Capital LLC Managing Director William Ruh said community banks still have to be fairly large, with multiple billions in assets, in order to be successful. The economics for smaller banks do not work, he said. As with the airline and automobile industry, there is "excess capacity" in the community banking niche, and it will be the "lean players" that survive a coming consolidation phase.

On the other hand, Ajay Asija, managing director at Fox-Pitt Kelton Cochran Caronia Waller LLC, said there are plenty of opportunities for strong CEOs and engaged boards to "completely transform" their banks. During this cycle, he said, the winners are going to aggressively address the issues and take advantage of opportunities. Banks that do not take action risk being left behind, he said.

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