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Conference Chatter

Bank & Thrift - Industry News

Buyers warming to FDIC-assisted deals

BLOG

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By Nick Gorski

Participants at the SNL Bank M&A Symposium this week said government-assisted transactions completed earlier in the cycle attracted few interested buyers since the targets were some of the most distressed institutions in the country, but failed banks have been attracting an increasing amount of attention.

Recognizing the opportunity to avoid a heated bidding process, veteran banker John Kanas said at the conference that he sought out one of the worst banks he could find. Ultimately, he led the private group that acquired BankUnited FSB from the FDIC after it failed. Kanas, now chairman and CEO of BankUnited, said one of the things that made the deal work was that no one else wanted to do it. More recently, however, institutions have shown greater appetite for risk and are placing "more generous" bids for failed banks.

The prospect for acquiring cheap deposits, even those out of market, has brought more banks to the table. For example, Westbury, N.Y.-based New York Community Bancorp Inc. recently looked far from its home market of metropolitan New York. Chairman, President and CEO Joseph Ficalora said the company made a bid for Austin, Texas-based Guaranty Bank, which closed Aug. 21. Ficalora said the company has been "actively engaged" in the bidding process and is focused on doing FDIC deals rather than a traditional acquisition.

He added that if New York Community had entered into a loss-sharing agreement on Guaranty's assets, the company would have had very little, if any, risk associated with the deal, while putting the additional deposit base to either make attractive loans or gain market share in New York.

New York Community would have needed to raise capital following the acquisition, and Ficalora said the company has investors lined up so they can do so easily in the event of a future FDIC acquisition.

Other companies have taken a similar approach and lined up the capital they would need to support a large government-assisted transaction ahead of time. Indeed, Prosperity Bancshares Inc. also made a bid for Guaranty, Chairman and CEO David Zalman said at the RBC Financial Institutions conference in September, and the company had lined up seven investors committed to a capital raise if the company was triumphant in the bidding process.

Kanas said he noticed quite a bit more interest in the Guaranty transaction and the bidding for Colonial Bank, which BB&T Corp. acquired in August. He said the atmosphere around failed banks is "frothy" compared to where it was earlier in the cycle.

Richard Fowler, executive vice president, mergers and acquisitions, at BB&T, said on a different panel that the company had looked at Colonial well before it went into receivership process, but decided they couldn't touch it "with a 10-foot pole." However, this previous look allowed BB&T to put together a bid for the FDIC relatively quickly. Fowler said BB&T received notice Aug. 11 that bids were due two days later.

Jason Polun, equity research analyst for U.S. large-cap banks at T. Rowe Price, said he liked BB&T's acquisition of Colonial because it represented a low-risk transaction. Previously, Polun said, that could take the form of a bank with an aging CEO, no succession plan, and a disengaged board, with a deal value as close to book value as possible. Now, the low-risk deals involve banks with less credit risk, or transactions that come with a loss-sharing agreement with the FDIC that helps mitigate that risk.

FDIC deals also have other advantages, IBERIABANK Corp. senior executive vice president John Davis said. Transactions usually have short approval and assimilation processes, and the danger of employees being poached by other organizations is limited.

Heightened interest in FDIC-assisted transactions is likely good news for the agency and, more importantly, the famished deposit insurance fund, which has taken a sizable hit as banks have failed. Concerned about the viability of the DIF, the FDIC has taken several steps to bolster the fund, including requiring the prepayment of deposit insurance premiums. It seems that the presence of more bidders could drive the price paid for failed institutions higher, resulting in lower costs for the deposit insurance fund.

James Wigand, the FDIC deputy director of the division of resolutions and receiverships, said that as the banking sector stabilized during the 1990s, bids for banks shifted more toward whole bank purchase and assumption deals, foregoing loss-sharing agreements. That shift was not directed by the FDIC, he said, but was a function of bidders having a better understanding of the loss content on the balance sheet. In turn, they were able to make higher bids, by the metric of the FDIC's least-cost mandate, by factoring a lower risk premium on the assets.

At some point, Wigand said he expects a similar shift in bids this cycle as well.

There are still some issues with FDIC-assisted transactions, and not all receiverships will receive a large amount of bids. For example, Rick Maples, the co-head of investment banking and head of financial institutions group at Stifel Nicolaus & Co., said some buyers cannot get comfortable with the locations and deposits of some sellers, even in FDIC-assisted deals. But, on the whole, the group of bidders should continue to expand, whether it is domestic buyers or foreign banks looking to establish a presence in the U.S. at low cost.