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U.S. bank M&A slump seen for many more months

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By Paritosh Bansal

NEW YORK (Reuters) - The U.S. banking sector will see more consolidation, but any pickup in unassisted deals may not happen before the end of next year, with auctions of failed banks dominating activity in the coming months, bankers said on Tuesday.

New regulations, need for capital, overcapacity in the industry and stronger banks going on the offensive will drive independent mergers eventually, but that would play out over years, not quarters, industry executives and advisors said at the SNL Bank M&A Symposium in New York.

"M&A activity has clearly slowed," KeyCorp (KEY.N: Quote, Profile, Research, Stock Buzz) Chief Executive Henry Meyer said. "But I think we will see things pick up again, maybe as early as the end of next year. Maybe it will be 2011 and beyond."

For now, though, auctions of failed banks by the Federal Deposit Insurance Corp (FDIC) are likely to dominate M&A activity in the banking industry.

Meyer and two of his fellow panelists, New York Community Bancorp (NYB.N: Quote, Profile, Research, Stock Buzz) Chief Executive Joseph Ficalora and People's United Bank (PBCT.O: Quote, Profile, Research, Stock Buzz) Chief Executive Philip Sherringham, said they were all eyeing banks in FDIC-run auctions.

"There is still such uncertainty in the marketplace in terms of taking on somebody else's problems," Meyer said. "We are really in a wait-and-see mode."

Many bankers and investors seem to be focused on FDIC deals and don't want to consider unassisted transactions even if the circumstances make sense, said Joseph Moeller, a managing director at Keefe, Bruyette & Woods.

"There seems to be a borderline unhealthy focus on FDIC-assisted deals," said Moeller, who spoke at a separate panel of investment bankers earlier in the day.

The traditional mergers and acquisitions market has come to a halt, Moeller said, adding that his investment bank had been active in raising capital for companies.

"We do expect, given the credit uncertainty, to see a lot more capital raising by banks over the next 12-18 months," said Brian Sterling, co-head of investment banking at Sandler O'Neill & Partners, who was on the panel with Moeller.

DEAL OBSTACLES

In his keynote address earlier, Sullivan & Cromwell Chairman Rodgin Cohen said some obstacles to deal-making could be removed with the right regulatory action and creative deal structures.

External constraints such as accounting rules that can increase the losses an acquiring bank has to realize on a target's loans after the deal and regulatory restrictions on acquisitions by weaker banks and private equity firms were hindering deals, Cohen said.

Cohen, who was involved in most of last year's financial institutions deals, also said some of the concerns about losses from a bank being purchased could be addressed with deal structures, where the ultimate payout to the target's shareholders depends on how the bank performs over a few years.

(Reporting by Paritosh Bansal; editing by Carol Bishopric)

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