

## INDUSTRY WATCH

# Acquiring Banks Shoot for Size, Diversity, and Analyst Coverage

By Joan Harrison

Consolidation continues in the banking industry with an occasional mega pairing like **Bank of America Corp.** with **FleetBoston Financial Corp.** popping up in a market dominated by mostly smallish and mid-sized deals. Acquiring banks desire to be more full-service, and appeal to a wider customer base, and they are looking for deals that will provide them with cross-selling opportunities, broader stock analyst coverage, geographic diversity, and the economies of scale that come with being a bigger bank.

### The quest for diversity

Diversity in products and services and geographic spread are key elements for any successful banking operation, industry followers note, and acquisition is a quicker route than organic growth to achieving the needed diversity.

**Christopher Kramer**, a Managing Director at Strategic Equity Group, says that banks will increase diversification of products and services in order to take advantage of financial services deregulation and cross-selling opportunities and will step-up marketing of those products and services to wider customer bases.

Financial pressures on banks are also driving m&a activity, says Ben Plotkin, Chairman and CEO of Ryan Beck & Co. "There has been a lot of margin compression and a lot of pre-payments of loans. Banks

are desperately looking for ways to grow their earnings, and since the cost of financing a deal is relatively low right now, many are starting to consider acquisitions," he says. Selling banks, particularly community banks, face relatively low earnings growth rates, while at the same time sale prices "are interesting — close to 1998 levels," he adds. So for many smaller financial institutions, now is a good time to sell.

Kramer adds that many small, public banks think they do not enjoy the analyst coverage that larger banks do, and that hampers their investment performance.

Plotkin agrees, but adds, "Just because a bank lacks coverage doesn't mean there isn't institutional interest. You just have to have enough liquidity in your stock to get recognition in the institutional community, which is a valid driver of deals."

Some small banks over the past few years have depended heavily on their mortgage banking business to hit earnings targets, says Fred Cummings, an analyst at McDonald Investments Equity Research. "As that business slows in response to rising interest rates, those companies will experience some earnings growth pressure, and their boards may determine that it's a good time to sell," he states.

In addition to the \$47 billion blockbuster Bank of America/FleetBoston deal — which includes the **Progress Financial Corp.** assets that FleetBoston

picked up for \$211 million in late August — **PNC Financial Services Group Inc.** acquired **United National Bancorp** for \$638 million; **Webster Financial Corp.** took over **FirstFed American Bancorp Inc.** for \$465 million; and **First Niagara Financial Group** shelled out \$357 million for **Troy Financial Corp.**

### Regional moves fill the deal log

In smaller, regional deals, **Texas Regional Bancshares Inc.** absorbed **Southeast Texas Bancshares Inc.** for \$226 million; **Pacific Capital Bancorp** paid \$135.8 million for neighboring bank **Pacific Crest Capital Inc.**; and Illinois-based **First Midwest Bancorp** and **CoVest Bancshares Inc.** joined up in a \$102.5 million deal.

Pointing to the host of small bank branch deals announced in the past few months, Patricia Oliver, who heads the financial services practice at Squire, Sanders & Dempsey, says that the bigger financial institutions that are selling off branches are trying to post profits on their balance sheets. Community banks, which are often the buyers of these branches, she adds, like these types of acquisitions. "It's easier to integrate a branch or two and pick up some deposits along the way. And sometimes the deals include deposits that are more familiar to the smaller banks than they are to larger banks, like agricultural deposits or smaller, consumer deposits," she adds. □