

# Bank mergers and acquisitions shift the financial landscape

BY BRIAN BANDELL

The financial meltdown has caused an especially active pace of bank mergers and acquisitions in Florida that shows no sign of slowing. In fact, many banking lawyers and accountants say it's heating up.



Urquiola

Joaquin Urquiola, a partner in the Coral Gables office of accounting firm Goldstein Schechter Koch, said the dozens of banks expected to fail in Florida

has attracted interest from many buyers, including companies that would be new to the state. Most of them are being patient so they can pick up a bank at a big discount, he said.



Gonzalez

Since regulators are not granting charters for new banks, many foreign investors see acquisitions as the only way to get their hands on a bank in Florida, said Frank Gonzalez, a partner with Miami accounting firm Morrison, Brown, Argiz & Farra. He's seen a spike in interest, but potential buyers are con-

cerned with accounting issues, especially whether the acquisition target bank has been properly reserving to cover its problem loans, he said.



Cohen

Most bank deals involve either Federal Deposit Insurance Corp.-assisted transactions, stock purchases by banks looking to expand in Florida without government help or bank holding companies that want to dump their Florida subsidiaries, said Lewis Cohen, a partner with Miami law firm

**Cohen & Bobotas.** Regulators have created more hurdles for completing these deals by putting more scrutiny on proposed bank officers and directors, he added.

"They are no longer looking for people with simply no black marks on their record," Cohen said. "The FDIC has shown a preference for senior management that has long-term experience in banking and, in particular, people who held senior management positions in banks during savings and loan crisis and whose banks came through it unscathed."



Zifrony

Regulators are also impacting deals by requiring higher-than-normal capital levels at many community banks, said Matthew Zifrony, a director at the Fort Lauderdale law firm Tripp Scott. He said this has made it harder for banks to make loans and raise capital.

"The regulators are feeding into the whole process by keeping the squeeze on the banks and turning to capital sources to take them over," Zifrony said. "It's making it very difficult for community banks to survive right now."



Knibloe

Bill Knibloe, a partner in charge of the financial institution auditing practice at accounting firm Crowe Horwath in Fort Lauderdale, said the number of banks collapsing should taper off later this year as their net interest margin improves, which should make up for problem loan charges.

However, he worries that the numerous loss-sharing deals the FDIC signed on previous failed bank deals would flood the market with distressed real estate and lower property values further - causing a second wave of loan losses. Knibloe said loss-sharing agree-

**SINCE REGULATORS** are not granting charters for new banks, many foreign investors see acquisitions as the only way to get a bank in Florida.

**Frank Gonzalez | Morrison, Brown, Argiz & Farra**

ments, where the FDIC picks up most of the losses on loans acquired from failed banks, encourage banks to foreclose on loans instead of working with borrowers.

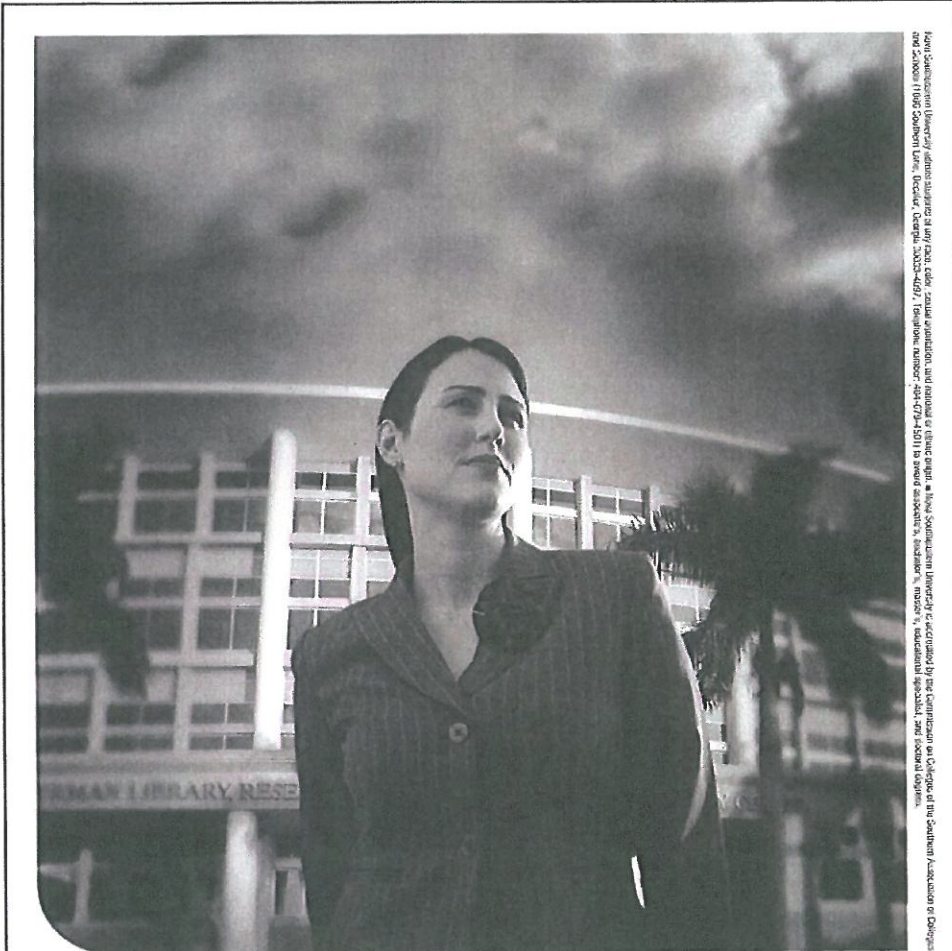
Those banks with too many problem loans and poor strategies for gathering deposits could be in trouble, he said.

"If you look at many banks that failed, they weren't using a good community bank strategy," Knibloe said. "Their business models were flawed not based on core banking."

Here's how these five lawyers and accountants view the impact of some of the biggest acquisition deals in South Florida over the past several years:

**TD BANK**

TD Bank goes statewide by acquiring three



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failed banks, including Riverside National Bank of Florida, and making a deal to buy Mercantile Bank/Carolina First Bank.

**Urquiola:** It's sad that Florida is losing some community banks, but TD Bank is run well and has plenty of capital. It remains to be seen whether the Canadian bank will interact with small businesses the way community banks do.

**Cohen:** The low acquisition cost has helped TD Bank expand cheaply and quickly. It's important that TD Bank maintains the character of these banks so it keeps their customers satisfied.

**Knibloe:** TD Bank has a good strategy, but hiring top-notch management in its new branches is the key to competing with other statewide banks.

**Zifrony:** Doubtful that the model of expanded operating hours will succeed in South Florida because it hasn't worked for other banks.

## BANKUNITED

A group of private equity firms led by Wilbur Ross gets the failed BankUnited and it emerges as a new bank.

**Gonzalez:** The new BankUnited is focused on the commercial side of the business, and they should find good opportunities.

**Urquiola:** The bank is aggressively trying to grow its deposits and its bankers are more visible in the community. "People have come and gone but they righted the ship and proceeded ahead."

**Knibloe:** The new management knows how to run a large bank, but they've spent much of their time getting the bank under control. That's why they haven't made another acquisition so far. "Once regulators have confidence in them and turn them loose, they'll start executing their strategy. They will make the new management team prove themselves, regardless of how much capital they put in."

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Matthew Zifrony | Tripp Scott

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**Zifrony:** The bank is still searching for its identity and trying to establish its reputation as a community bank.

## BANCO SABADELL

Spain-based Banco Sabadell buys Mellon United National Bank and plans to merge it with TransAtlantic Bank.

**Gonzalez:** Sabadell is developing its U.S. community banking presence through this deal. It's a very strong international bank in Spain, and its management should serve it well over here.

**Cohen:** This is a great example of a banking conglomerate acquiring a small bank while maintaining its character as a community bank and its personal relationships with customers.

**Zifrony:** Many of its customers could feel uneasy during the transition as they wonder whether it will hamper the bank's ability to conduct business with them the way it did before, and whether the bank will lose key employees.

## FIRST SOUTHERN BANK

Private equity firms pump capital into

First Southern Bank and the new Premier American Bank, which has made three failed bank acquisitions so far.

**Urquiola:** Regardless of whether the banks are owned by private equity firms or local investors, it's the management that's the most important thing in how they deal with the community. With so many players looking to acquire failed banks, some could be left out and opt for regular acquisitions instead.

**Cohen:** Having a lot of capital and the FDIC loss-sharing deal puts these banks in a good position to lend. Their presence shows that

investors expect the South Florida economy to rebound.

**Knibloe:** Both of these banks are clients. Premier American is reviewing the banks it has acquired as it crafts a plan to build a strong community bank throughout Florida.

**Zifrony:** In most private equity deals, the aim is to create a profitable company and then sell it in three to five years. Operating them as community banks would maximize their value before they flip the banks.

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