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2019 Bank M&A Survey

DEC 2018 | RESEARCH

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Executive Summary

Over the past year, Congress has passed both tax reform and regulatory relief—signed into law by President Donald Trump in December 2017 and May 2018, respectively. And the Trump administration has appointed regulators who appear to be more favorable to the industry, including former bankers Joseph Otting, to the Office of the Comptroller of the Currency, and Jelena McWilliams, to the Federal Deposit Insurance Corp.

As a result, the 184 bank executives and directors participating in the 2019 Bank M&A Survey, sponsored by Crowe LLP, voice a resoundingly positive view of Washington, particularly for Trump and Mick Mulvaney. Eighty-seven percent say the Trump administration has had a positive impact on the banking industry. The same percentage give glowing marks to Mulvaney, the interim head of the Consumer Financial Protection Bureau who has turned the agency into less of a regulatory cop and more into a regulator with an even-handed approach toward the financial industry.

The survey examines industry attitudes about issues impacting M&A and growth, along with expected acquisition plans and expectations for the U.S. economy through 2019. It was conducted in September and October 2018.

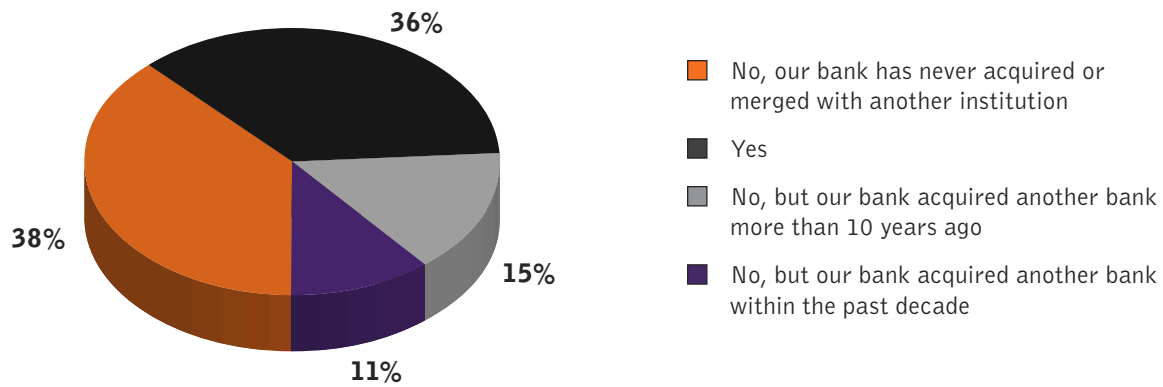
Tax reform had a big impact on the industry, with many making investments to grow their business. Thirty-seven percent say their bank invested in new growth initiatives as a result of tax reform, and 36 percent in new technology. One-quarter indicate the bank raised employee salaries, and 19 percent paid a one-time bonus to employees. Some shareholders saw gains as well: 25 percent of respondents say their bank paid a dividend, and 10 percent bought back stock.

When asked where the bank designated the largest percentage of its tax windfall, 32 percent point to new growth initiatives, and 26 percent to shareholders.

Additional findings

- More than half believe the current environment is more favorable for deals, and 50 percent say they're likely to acquire another bank by the end of 2019.
- Thirty percent believe their bank is more likely to acquire as a result of the Economic Growth, Regulatory Relief and Consumer Protection Act, which rolled back some regulations for the banking industry. Two-thirds indicate regulatory reform will have no impact on their M&A plans.
- Acquiring deposits is very attractive to today's potential dealmakers: 71 percent say the potential target's deposit base is a highly important factor in making the decision to acquire.
- To better compete for deposits, 29 percent say their bank will acquire deposits via acquisition.
- Fifty-three percent say branch locations in attractive or growing markets are highly important, and 49 percent place high value on lending teams or talented lenders at the target.
- Despite more sympathetic regulators and the passage of regulatory relief, 72 percent say their bank's examiners have grown no less stringent over the past two years.

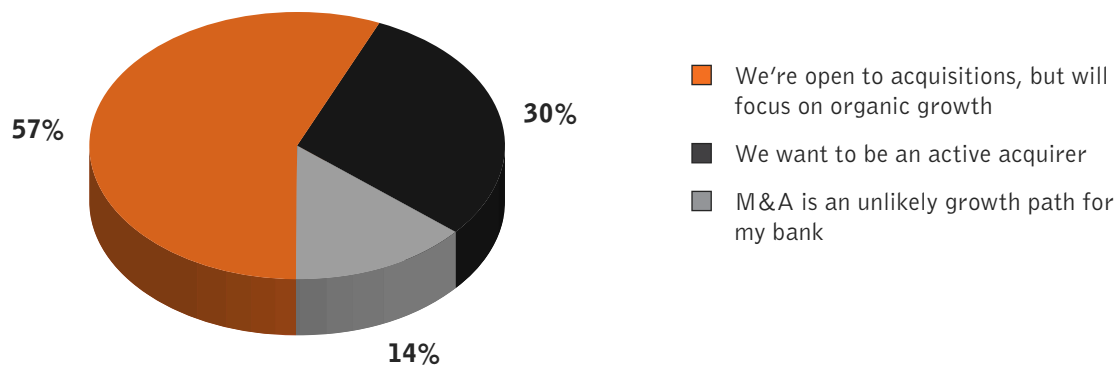
1. Has your bank acquired or merged with another institution within the past three years?



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
No, our bank has never acquired or merged with another institution	-	16%	34%	68%	60%	38%
Yes	77%	57%	28%	18%	9%	36%
No, but our bank acquired another bank more than 10 years ago	8%	15%	19%	8%	23%	15%
No, but our bank acquired another bank within the past decade	15%	12%	19%	5%	9%	11%

2. How would you characterize your bank’s growth strategy over the next five years?

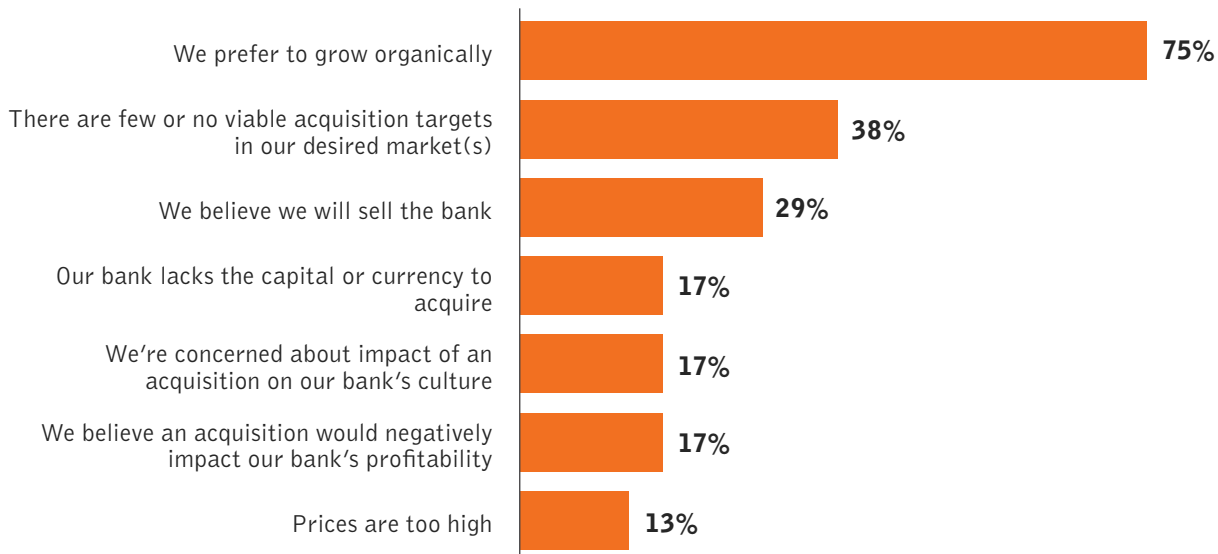
Numbers don't add up to 100 percent due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
We're open to acquisitions, but will focus on organic growth	15%	55%	78%	55%	57%	57%
We want to be an active acquirer	69%	40%	13%	24%	20%	30%
M&A is an unlikely growth path for my bank	15%	5%	9%	21%	23%	14%

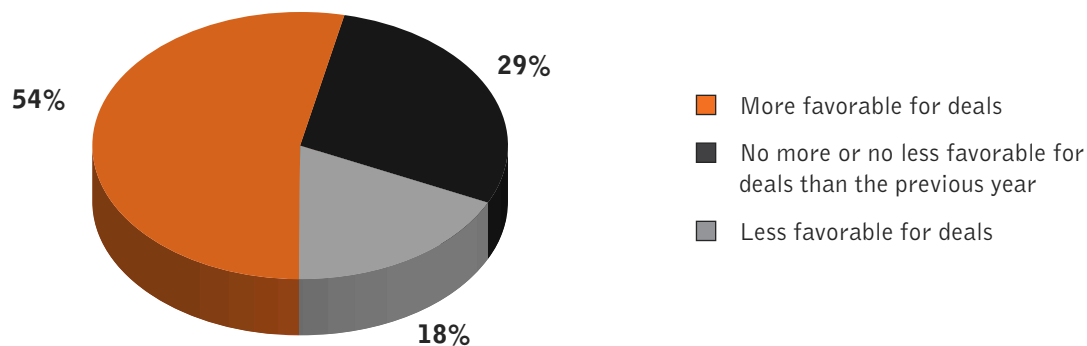
3. Why is your bank unlikely to acquire in the next five years?

Question was only asked of respondents who indicated that M&A is an unlikely growth path for their bank. Respondents were asked to select all that apply.



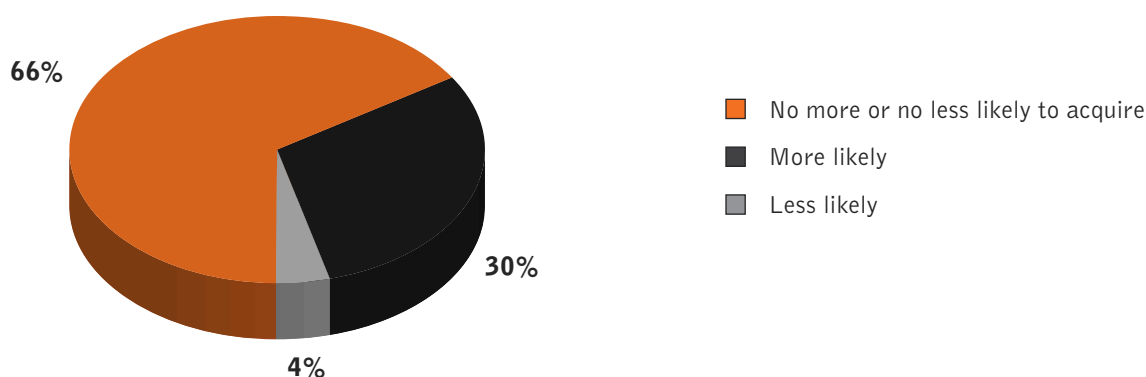
4. How do you feel about the current environment with regard to bank merger and acquisition (M&A) activity?

Numbers don't add up to 100 percent due to rounding.



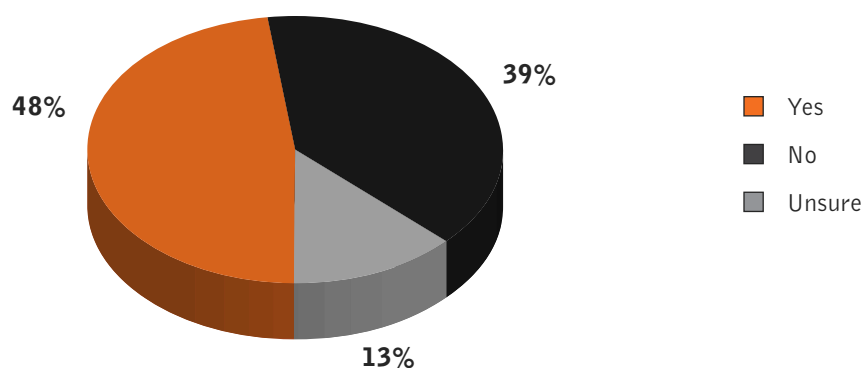
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
More favorable for deals	39%	52%	53%	58%	59%	54%
No more or no less favorable for deals than the previous year	46%	33%	25%	24%	24%	29%
Less favorable for deals	15%	15%	22%	18%	18%	18%

5. Do you believe your bank will be more likely or less likely to acquire as a result of the Economic Growth, Regulatory Relief and Consumer Protection Act, which rolled back some regulations for the banking industry?



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
No more or no less likely to acquire	77%	67%	50%	76%	66%	66%
More likely	23%	32%	41%	21%	29%	30%
Less likely	-	2%	9%	3%	6%	4%

6. Are there a sufficient number of viable acquisition targets in your banks' markets, or in markets your bank would like to enter?



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes	83%	63%	43%	30%	28%	48%
No	17%	29%	46%	55%	44%	39%
Unsure	-	9%	11%	15%	28%	13%

7. By the end of 2019, how likely is it that your institution will purchase the following?

Numbers don't add up to 100 percent due to rounding.

Bank(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	31%	29%	7%	6%	3%	16%
Somewhat likely	31%	39%	52%	24%	24%	35%
Somewhat unlikely	8%	17%	15%	24%	21%	18%
Very unlikely	23%	12%	26%	46%	42%	28%
Unsure	8%	3%	-	-	9%	4%

Nondepository line(s) of business						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	5%	-	12%	-	5%
Somewhat likely	50%	30%	8%	18%	6%	20%
Somewhat unlikely	20%	25%	21%	12%	15%	19%
Very unlikely	30%	33%	63%	58%	64%	49%
Unsure	-	7%	8%	-	15%	7%

Branch(es)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	5%	11%	-	3%	4%
Somewhat likely	18%	22%	36%	24%	15%	23%
Somewhat unlikely	27%	39%	32%	33%	24%	33%
Very unlikely	55%	27%	21%	42%	46%	35%
Unsure	-	7%	-	-	12%	5%

Loan portfolio(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	20%	5%	8%	3%	-	5%
Somewhat likely	20%	26%	16%	12%	12%	18%
Somewhat unlikely	10%	29%	8%	21%	30%	23%
Very unlikely	40%	35%	64%	61%	49%	48%
Unsure	10%	5%	4%	3%	9%	6%

Technology or fintech firm(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	7%	4%	-	-	3%
Somewhat likely	20%	12%	-	6%	-	7%
Somewhat unlikely	40%	28%	17%	12%	18%	22%
Very unlikely	40%	53%	79%	82%	67%	65%
Unsure	-	-	-	-	15%	3%

8. Compared to a year ago, is it more attractive or less attractive to purchase:

Another bank						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
More attractive	15%	34%	30%	30%	49%	34%
No more or no less attractive	77%	59%	56%	61%	36%	56%
Less attractive	8%	7%	15%	9%	15%	10%

Nondepository line(s) of business						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
More attractive	-	2%	-	15%	15%	7%
No more or no less attractive	82%	86%	85%	79%	73%	81%
Less attractive	18%	12%	15%	6%	12%	12%

Branch(es)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
More attractive	17%	9%	39%	15%	15%	17%
No more or no less attractive	58%	64%	43%	64%	70%	61%
Less attractive	25%	27%	18%	21%	15%	22%

Loan portfolio(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
More attractive	-	14%	15%	21%	18%	16%
No more or no less attractive	73%	66%	62%	64%	67%	65%
Less attractive	27%	21%	23%	15%	15%	19%

Technology or fintech firm(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
More attractive	18%	19%	8%	9%	9%	13%
No more or no less attractive	82%	69%	89%	79%	70%	75%
Less attractive	-	12%	4%	12%	21%	12%

9. Rate the importance of each of the following factors in your decision to acquire another bank.

Numbers don't add up to 100 percent due to rounding.

Deposit base						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	62%	76%	79%	63%	67%	71%
Important	39%	21%	21%	34%	27%	26%
Not important	-	3%	-	3%	6%	3%

Demonstrated loan growth						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	23%	17%	11%	41%	39%	26%
Important	69%	74%	68%	50%	49%	63%
Not important	8%	9%	21%	9%	12%	12%

Loan portfolio mix						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	31%	38%	29%	63%	36%	40%
Important	62%	59%	64%	31%	49%	52%
Not important	8%	3%	7%	6%	15%	7%

Complementary business lines/niches						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	25%	33%	22%	41%	24%	30%
Important	50%	57%	67%	50%	49%	55%
Not important	25%	10%	11%	9%	27%	15%

New business lines/niches						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	8%	22%	7%	41%	13%	20%
Important	50%	41%	54%	34%	53%	45%
Not important	42%	36%	39%	25%	34%	35%

Executive talent						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	15%	26%	14%	16%	30%	22%
Important	62%	53%	43%	63%	55%	54%
Not important	23%	21%	43%	22%	15%	24%

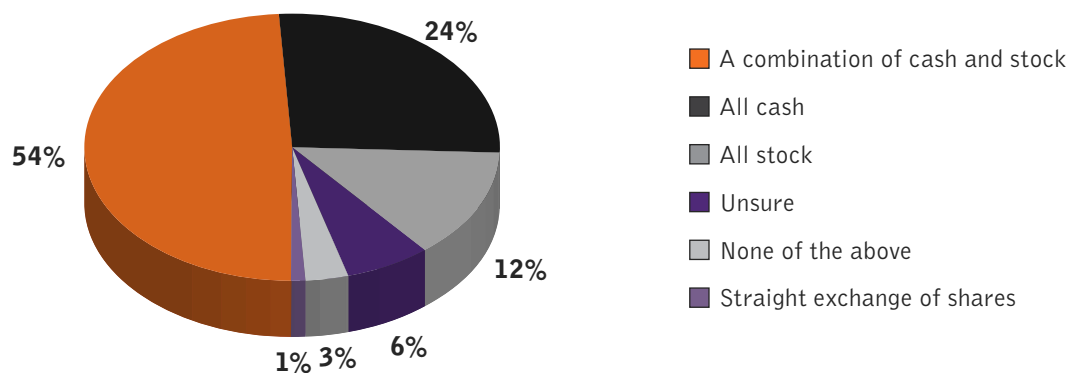
Lending team/talented lenders						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	33%	45%	46%	56%	58%	49%
Important	58%	50%	50%	38%	39%	46%
Not important	8%	5%	4%	6%	3%	5%

Branch locations in attractive/growing markets						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	31%	53%	61%	66%	42%	53%
Important	62%	41%	32%	31%	39%	39%
Not important	8%	5%	7%	3%	18%	8%

Opportunity to enhance technology						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Highly important	8%	19%	14%	19%	21%	18%
Important	25%	45%	39%	47%	46%	43%
Not important	67%	36%	46%	34%	33%	39%

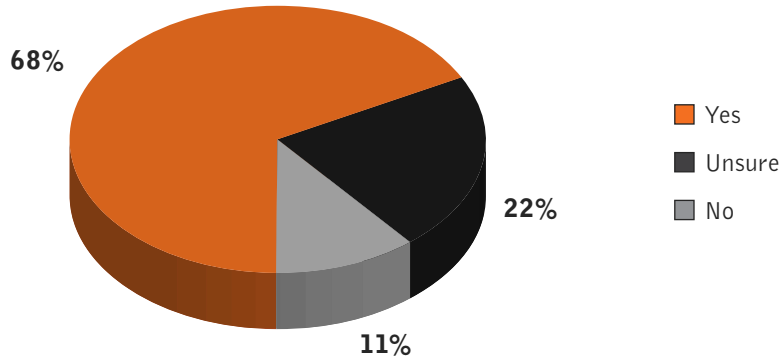
10. If your institution were to acquire another bank, how would you want to structure the transaction?

Question was only asked of respondents who indicated that their bank seeks to be an active acquirer or is open to acquisitions.



Bank Asset Size	Public	Private	Mutual	Total
A combination of cash and stock	67%	46%	9%	54%
All cash	3%	46%	36%	24%
All stock	21%	3%	-	12%
Unsure	6%	3%	27%	6%
None of the above	1%	-	27%	3%
Straight exchange of shares	1%	2%	-	1%

11. If your bank were to seek a sale, do you believe it would be easy to find a buyer for your bank at a fair price?
Numbers don't add up to 100 percent due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes	46%	60%	85%	69%	73%	68%
Unsure	46%	23%	11%	25%	18%	22%
No	9%	18%	4%	6%	9%	11%

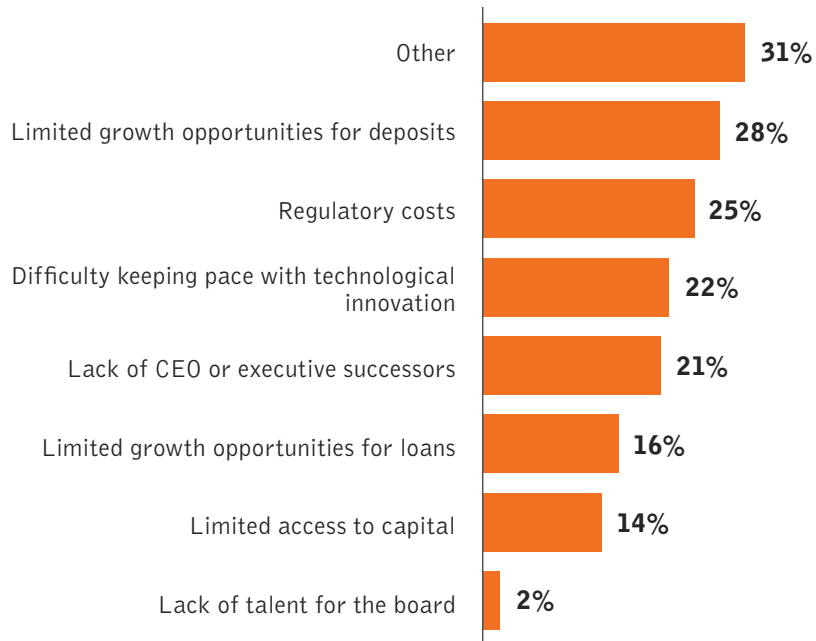
12. Why do you believe that it would be difficult to find a buyer for your bank?

Question was only asked of respondents who did not indicate that it would be easy to find a buyer for their bank at a fair price. Respondents were asked to select all that apply.

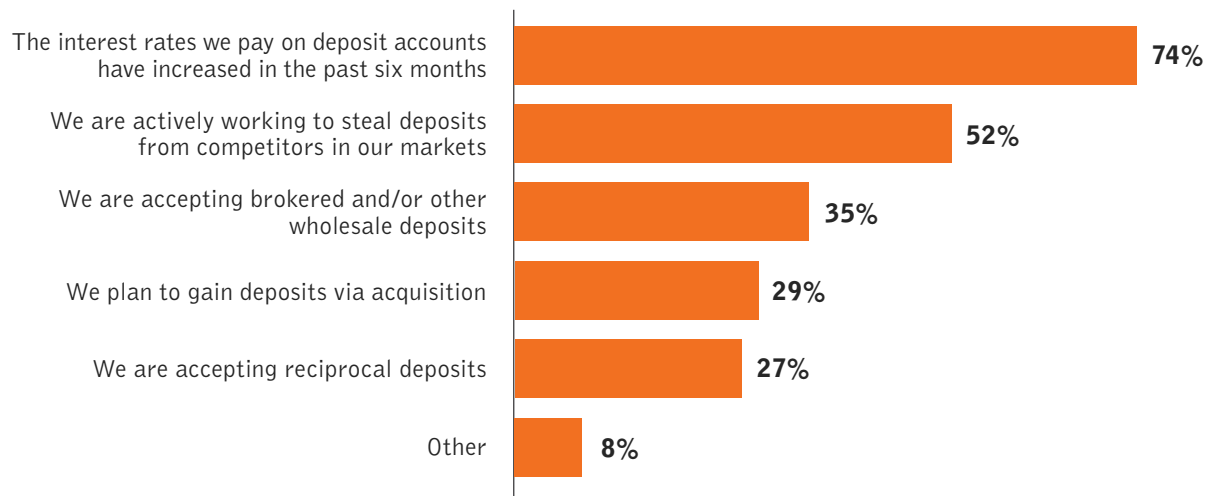


13. If your bank were to sell, why would you sell your bank, other than to get the best value for shareholders?

Respondents were asked to select the top two reasons they would sell, based on their expectations for their bank and its market(s).



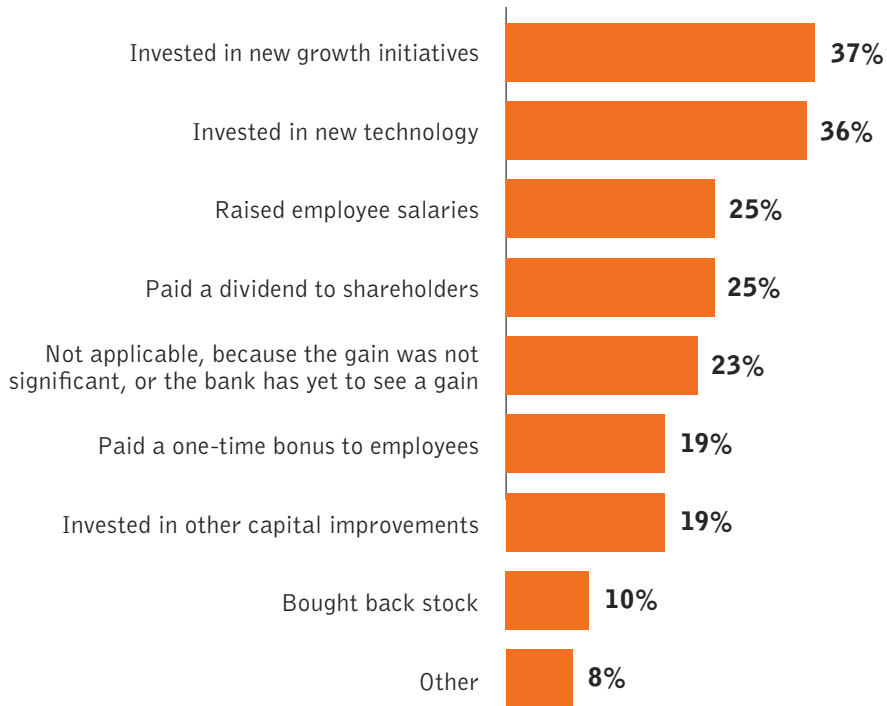
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Other	50%	28%	48%	29%	19%	31%
Limited growth opportunities for deposits	30%	28%	26%	23%	31%	28%
Regulatory costs	-	25%	19%	23%	41%	25%
Difficulty keeping pace with technological innovation	20%	23%	26%	19%	19%	22%
Lack of CEO or executive successors	10%	30%	7%	19%	22%	21%
Limited growth opportunities for loans	20%	15%	11%	19%	19%	16%
Limited access to capital	10%	11%	15%	26%	9%	14%
Lack of talent for the board	-	2%	-	-	6%	2%

14. How is your bank positioning itself to better compete for deposits?*Respondents were asked to select all that apply.*

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
The interest rates we pay on deposit accounts have increased in the past six months	58%	69%	82%	77%	80%	74%
We are actively working to steal deposits from competitors in our markets	42%	55%	56%	63%	37%	52%
We are accepting brokered and/or other wholesale deposits	33%	36%	37%	30%	37%	35%
We plan to gain deposits via acquisition	50%	46%	15%	17%	13%	29%
We are accepting reciprocal deposits	17%	22%	33%	33%	27%	27%
Other	25%	6%	15%	-	7%	8%

15. How has your bank dedicated the profits gained due to the tax reform passed by Congress earlier this year?

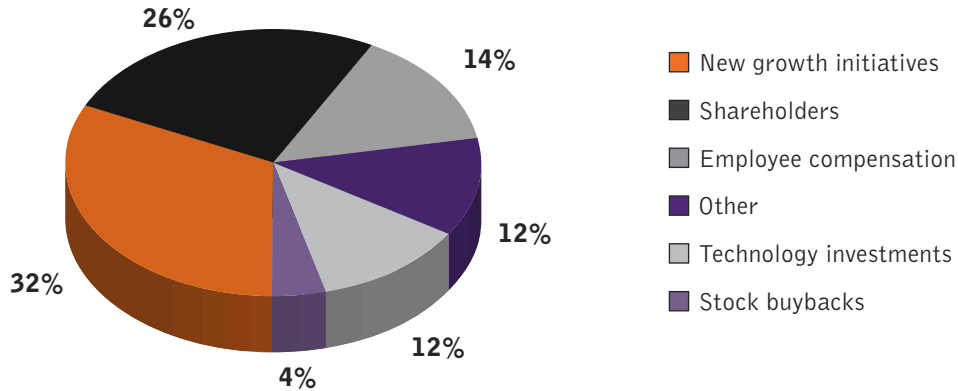
Respondents were asked to select all that apply, and to focus on decisions made specifically due to tax reform.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Invested in new growth initiatives	50%	46%	59%	26%	10%	37%
Invested in new technology	33%	48%	37%	23%	26%	36%
Raised employee salaries	17%	33%	30%	16%	19%	25%
Paid a dividend to shareholders	33%	19%	22%	26%	32%	25%
Not applicable, because the gain was not significant, or the bank has yet to see a gain	8%	13%	7%	36%	45%	23%
Paid a one-time bonus to employees	25%	22%	26%	13%	13%	19%
Invested in other capital improvements	8%	28%	22%	10%	13%	19%
Bought back stock	25%	7%	22%	-	10%	10%
Other	-	7%	11%	13%	7%	8%

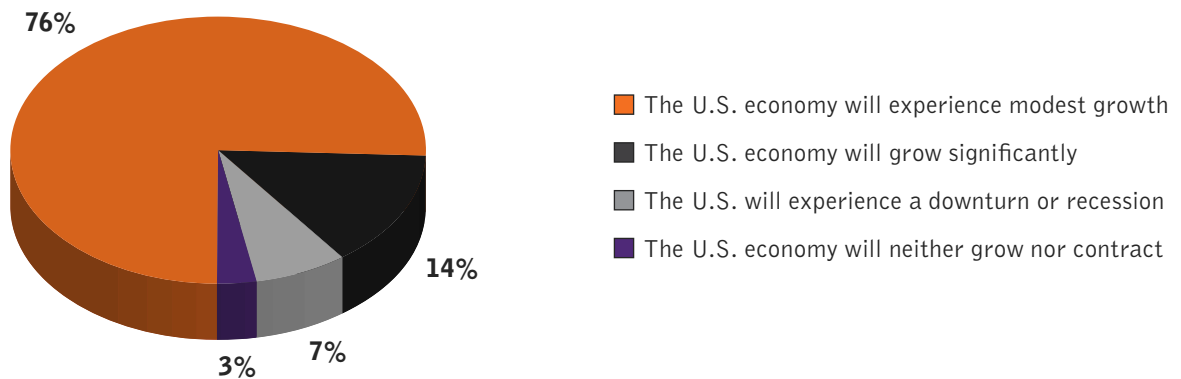
16. To which of the following did your bank designate the largest percentage of its tax windfall?

Question was only asked of respondents who indicated their bank had seen gains due to tax reform.



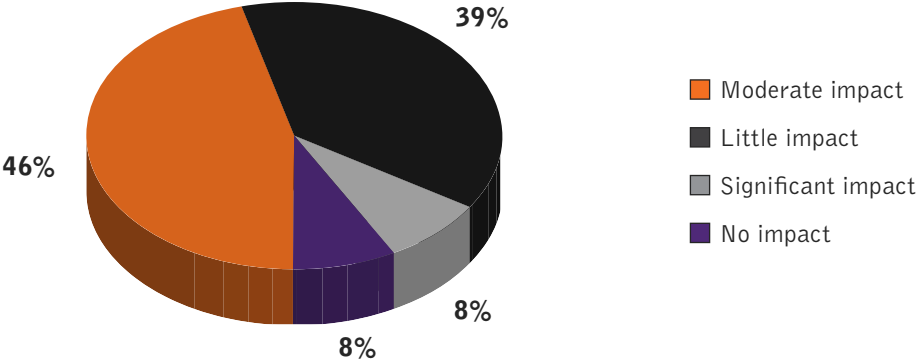
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
New growth initiatives	36%	37%	36%	24%	20%	32%
Shareholders	55%	20%	20%	24%	35%	26%
Employee compensation	-	15%	16%	24%	5%	14%
Other	-	9%	12%	19%	20%	12%
Technology investments	-	17%	12%	10%	10%	12%
Stock buybacks	9%	2%	4%	-	10%	4%

17. What is your outlook for the U.S. economy through the end of 2019?



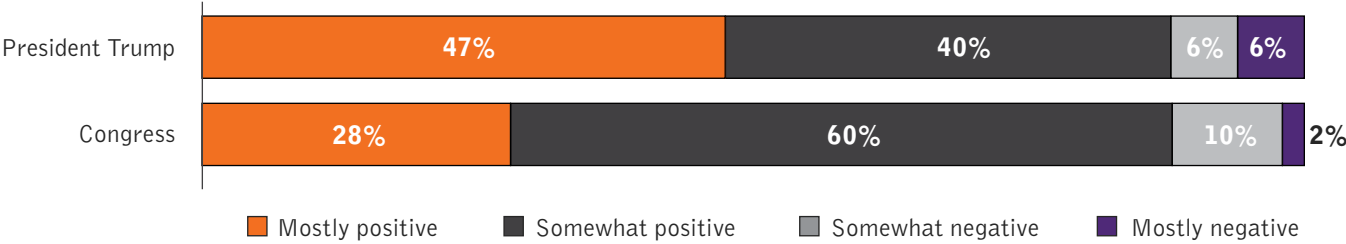
18. How much of an impact do you believe increased tariffs will have on your bank’s business customers?

Numbers don’t add up to 100 percent due to rounding.



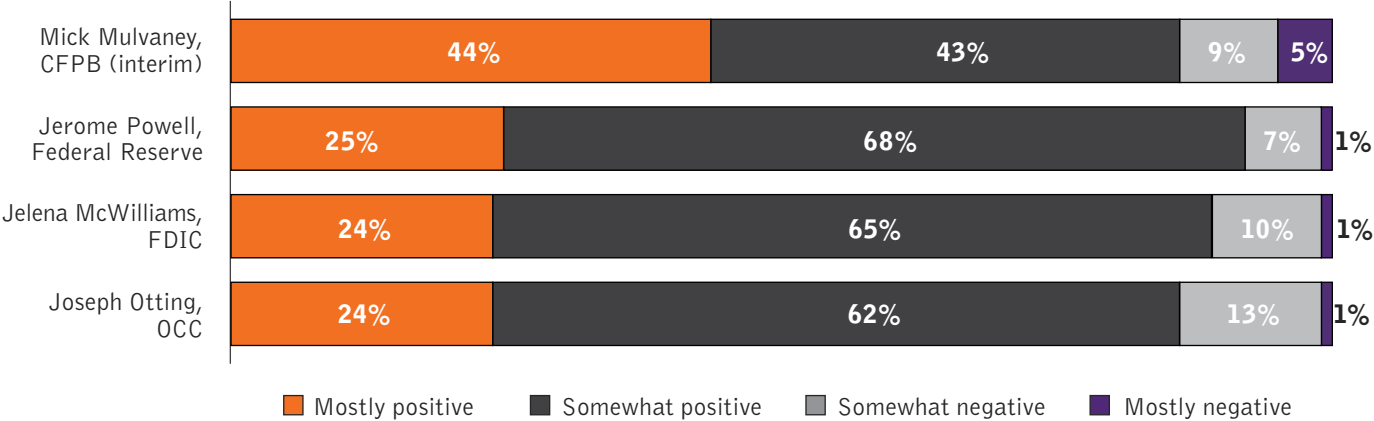
19. In your view, has the impact of Congress and President Trump’s administration on the banking industry been positive or negative as a whole?

Numbers don’t add up to 100 percent due to rounding.

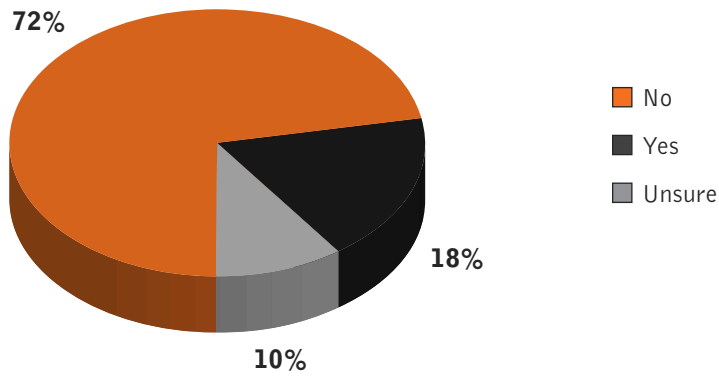


20. How would you rate the impact of the current heads of the federal bank regulatory agencies on the state of the banking industry?

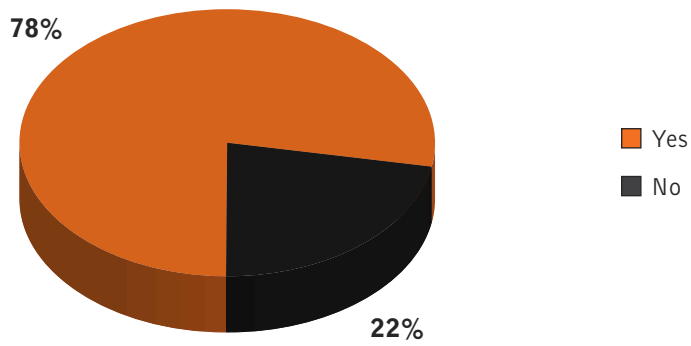
Numbers don’t add up to 100 percent due to rounding.



21. Have your bank's examiners grown less stringent in their supervision of your bank over the past two years?

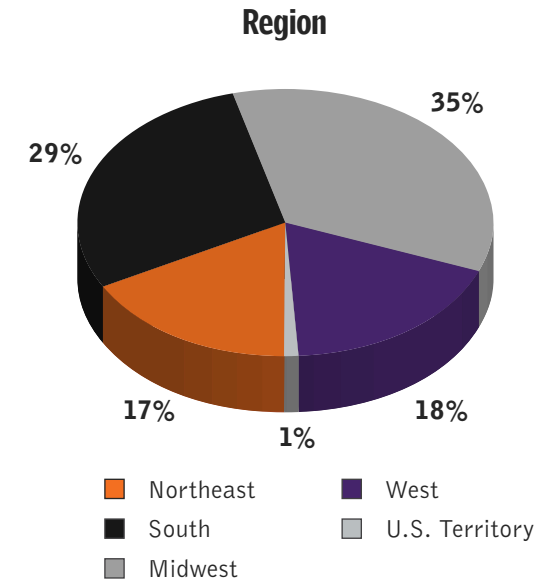
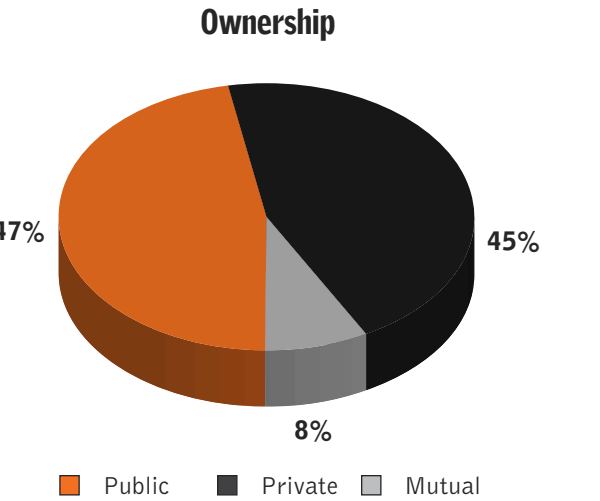
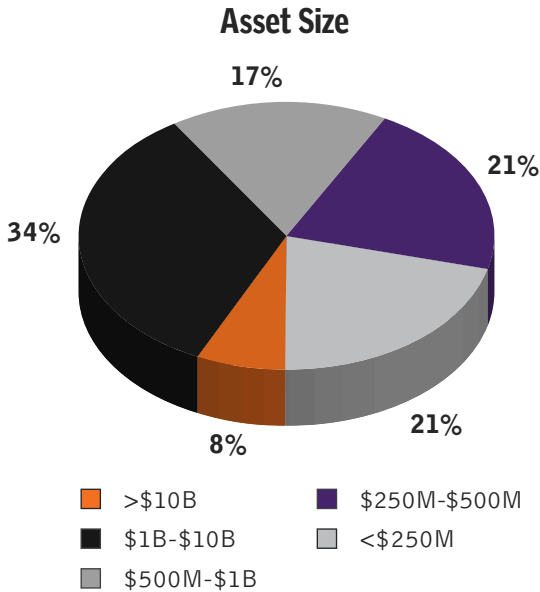
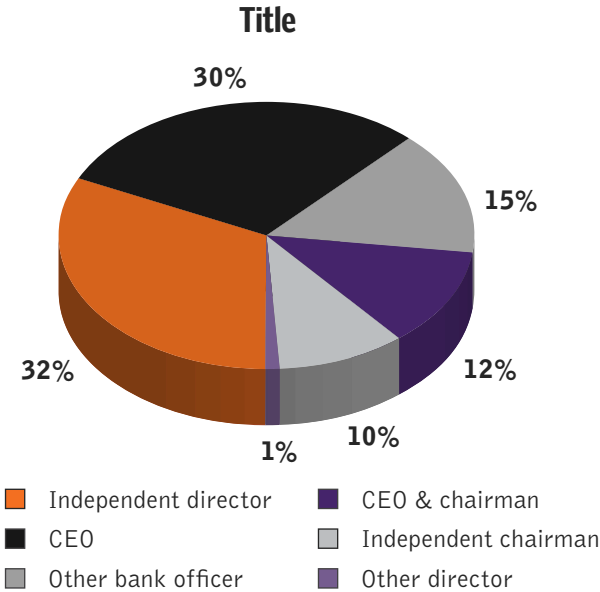


22. If Democrats regain a majority in Congress this fall, are you concerned that the level of bank regulation will increase?



ABOUT THE SURVEY

Bank Director’s 2019 Bank M&A Survey, sponsored by Crowe LLP, surveyed 184 independent directors, chief executives and other senior executives of U.S. banks to gain their views on the M&A environment, including their expectations around the U.S. economy and the regulatory environment, and how both factors affect bank mergers and growth. The survey was conducted in September and early October 2018. Forty-two percent of the respondents are independent directors or chairmen, and 42 percent serve as the bank’s CEO. Thirty-four percent represent banks between \$1 billion and \$10 billion in assets. Forty-seven percent represent a public bank and 45 percent a privately-held institution



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