

# Breakout 3: How Banks Should Make the Decision to Buy or Sell

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**BankDirector.**

#BBTF24

# How Banks Should Make the Decision to Buy or Sell

Bank Board Training Forum  
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# Peter Weinstock



## PRACTICES

Banking and Finance  
Financial Institutions Corporate and  
Regulatory  
Fair lending  
Consumer Financial Compliance and  
litigation

## CONTACT

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## EDUCATION

JD, Duke University School of Law, 1985 BA,  
State University of New York, 1982

## BAR ADMISSIONS

Texas

## CHAMBERS

Martindale-Hubbell® AV Preeminent

Peter's practice focuses on corporate and regulatory representation of small to large regional and national financial institution franchises. During the past several years, Peter has devoted substantial time to bank M+A, capital raising, Fintech, embedded finance, strategic planning, regulatory, compliance and enforcement. He is Co-Practice Group Leader of the Financial Institutions Section. He has counseled institutions on more than 300 M&A transactions, as well as provided representation on over 250 securities offerings as well as capital planning.

## Relevant Experience

Representation includes:

- facilitated over 50 board strategic plans
- lead counsel in merger of equals creating a \$13 billion bank in California and in 2022 creating \$3.0 + billion bank in Wisconsin;
- lead counsel on the North American Corporate Deal of the Year (Middle Market) - The M&A Atlas Awards - for Cascade Bancorp, Inc.'s successful topping bid to acquire Horne Federal Bancorp, Inc., a NASDAQ-listed bank; also, Finance Monthly Deal Maker of the Year Award 2014;
- more topping bid transactions as buyer or seller than any other banking firm over the past 20 years;
- more M&A transactions than any firm over the last 20 years (according to *S&P Global Market Intelligence*);
- hundreds of capital offerings;
- hundreds of fair lending, CMPs, and other enforcement actions;
- testimony before Panel of the House Judiciary Committee regarding Operation "Choke Point" in July 2014;
- myriad compliance issues before all of the federal bank regulatory authorities, including the CFPB; and negotiations of administrative actions; and
- representation of 8% of Fintech platform banks.
- provided regulatory approved trainings

For the 22 years of its existence ending in 2019, he served as co-editor of ICBA's Newsletter, "SUBCHAPTERS: THE NEXT GENERATION." He is the author of numerous articles in law and banking publications, including *Banking Law Journal* article "A Rosetta Stone for Credit: 2022 Policy Statement on CRE Loan Workouts and Accommodations." His article, "Acquisitions of Failed Banks - Present Risk and Opportunity," was voted the second best article appearing in *The Risk Managers Association Journal* of 2011. He has spoken at over 250 banking conferences and seminars. Mr. Weinstock is listed in *Chambers USA "Leaders in Their Field"* for banking and "Fintech" and as AV Preeminent in *Martindale-Hubbell®*. He was also named to the *National Law Journal's* list of Mergers & Acquisitions and Antitrust Trailblazers for 2018.

# Beth Whitaker



## PRACTICES

Banking and Finance

Financial Institutions Corporate and  
Regulatory

Mergers and Acquisitions

Corporate

Capital Markets and Securities

Environmental, Social and Governance  
(ESG)

## CONTACT

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## EDUCATION

JD, Charleston School of Law, cum laude,  
Chief Justice, Moot Court Board, 2008  
BA, International Studies and Spanish, Elon  
University, magna cum laude, 2004

## BAR ADMISSIONS

Texas

Beth's practice focuses on corporate transactions and securities and regulatory representation of commercial banks, holding companies, credit unions and other financial institutions, including mergers and acquisitions, joint ventures, and corporate finance transactions. Beth advises clients on structuring and raising capital through public and private debt and equity offerings, including eight IPOs. She also advises publicly traded clients on securities law compliance and reporting obligations. Beth further advises clients on corporate governance and shareholder matters, including share repurchases and tender offers, as well as succession planning.

## Relevant Experience

- Represented BankFirst Capital Corporation in its acquisition of Mechanics Banc Holding Company and Tate Financial Corporation (both in 2022)
- Represented Spirit of Texas Bancshares, Inc. in its sale to Simmons First National Corporation (2021)
- Served as underwriters' counsel in initial public offering of FinWise Bancorp (2021)
- Served as underwriters' counsel in initial public offering of CrossFirst Bankshares, Inc. (2019)
- Represented Spirit of Texas Bancshares, Inc. in its acquisition of three separate Texas banks (2018 – 2019)
- Represented Tectonic Financial, Inc. in its initial public offering (2019)
- Represented Trinity Capital Corporation in its sale to Enterprise Financial Services Corp (2019)

## Speaking Engagements & Publications

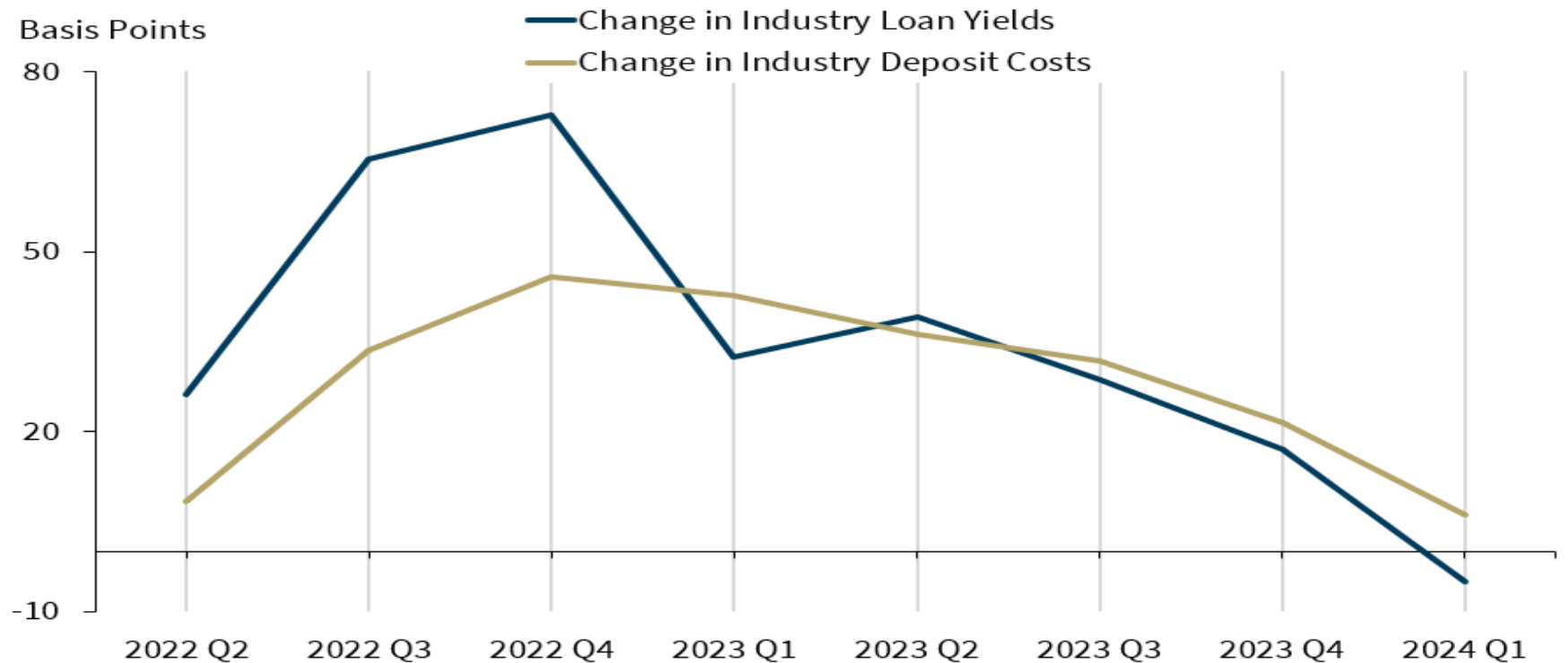
- "Legal Trends in Banking," FORVIS 2023 Financial Services Virtual Symposium, November 2023
- "How Banks Should Make the Decision to Buy or Sell," BankDirector – Bank Board Training Forum, Nashville, TN, September 2023
- "How Banks Should Make the Decision to Buy or Sell," BankDirector – Acquire or be Acquired, Phoenix, AZ, January 2023
- "How to Grow and Keep on Growing," BankDirector – Acquire or be Acquired, Phoenix, AZ, January 2022
- "What Banks Need To Do and/or Change to Continue Growing," Bank Director –Acquire or Be Acquired, Phoenix, Arizona, January 2020
- "Planning for Asset Growth: What To Do At Each Ledge of Asset Size," Bank Director –Acquire or Be Acquired, Phoenix, Arizona, January 2019
- "How Things Change: Considerations for Different Asset Thresholds," Bank Director –Acquire or Be Acquired, Phoenix, Arizona, January 2018
- "Capital Planning and M&A Update," South Carolina Bankers Association – CFO Conference, Columbia, South Carolina, September 2017

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# Where Are We Now?

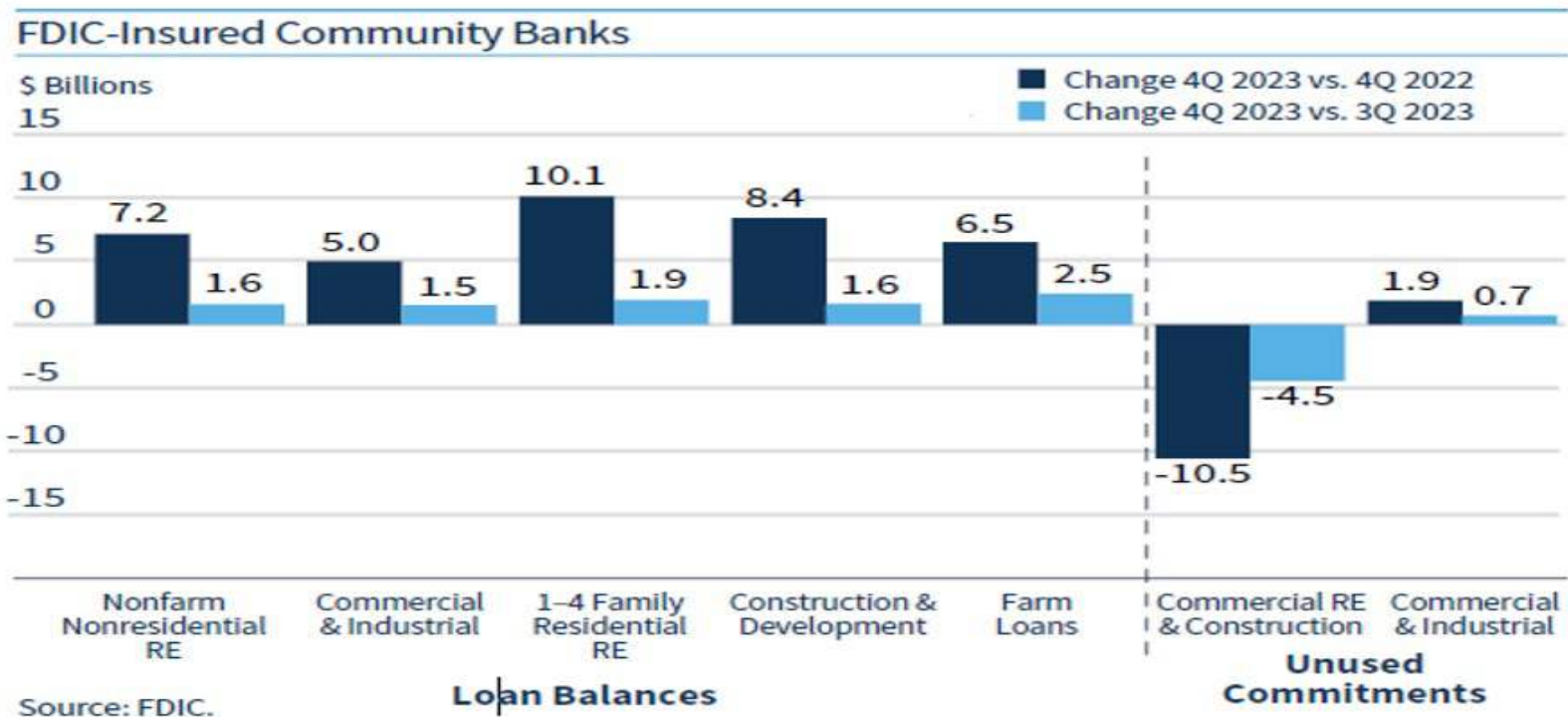
## Liquidity and Credit

# Quarterly Change in Loan Yields and Deposit Costs



Source: FDIC.  
Note: Ratios are annualized.

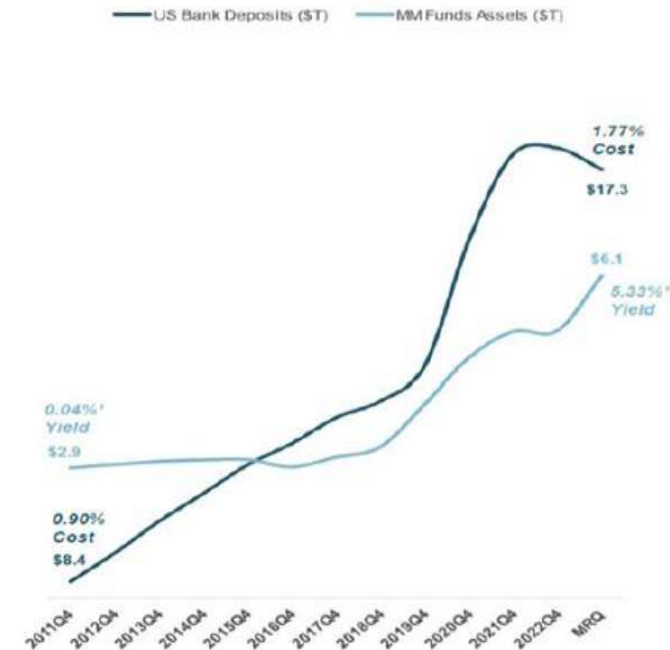
# Change in Loan Balances and Unused Commitments





# Deposits are Being Commoditized by Competing Products

US Bank Deposits vs. Money Market Fund Assets



Increased Competition to Limit Rate-Drive Benefits



1) Reflects Effective Federal Funds Rate  
Note: Bank level Call Report data shown where consolidated financial data unavailable  
Source: Federal Reserve Economic Data; US Department of the Treasury; CEIC Global Economic Data; Vanguard; S&P Capital IQ Pro



# Funding Costs at US Banks (%)



Data compiled Aug. 12, 2024.

MMDA= money market deposit account.

Analysis includes US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking charter are excluded.

<sup>1</sup> Interest-bearing transaction accounts include negotiable order of withdrawal accounts and demand deposit accounts.

<sup>2</sup> Cost of funds is the total interest expense as a percentage of average interest-bearing liabilities and average noninterest-bearing deposits.

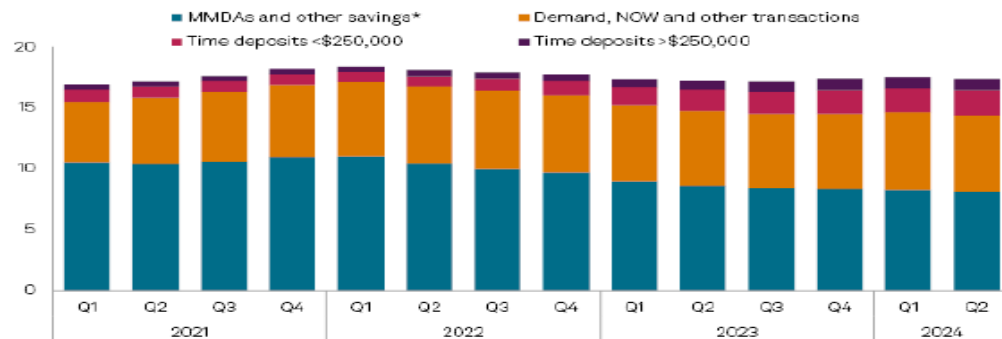
Data based on regulatory filings.

Excludes foreign deposits.

Source: S&P Global Market Intelligence.

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# Deposit Composition at US banks (\$ trillion)



Data compiled Aug. 12, 2024.

MMDA = money market deposit account; NOW = negotiable order of withdrawal.

Analysis includes US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking charter are excluded.

\* Other savings represent deposits or accounts that do not permit transfers by check, draft, debit card or similar order made by the depositor and payable to third parties.

Data based on regulatory filings.

Excludes foreign deposits.

Source: S&P Global Market Intelligence.

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## Deposit declines

Deposits and [bank balance sheets overall](#) declined in the second quarter.

The deposit contraction reflected seasonal factors, however. Year-over-year deposit growth has "been holding pretty steady" at close to 1.5%, Piper Sandler analysts said in an Aug. 18 note on weekly Fed data. "Deposit growth is stable, but at a weak rate."

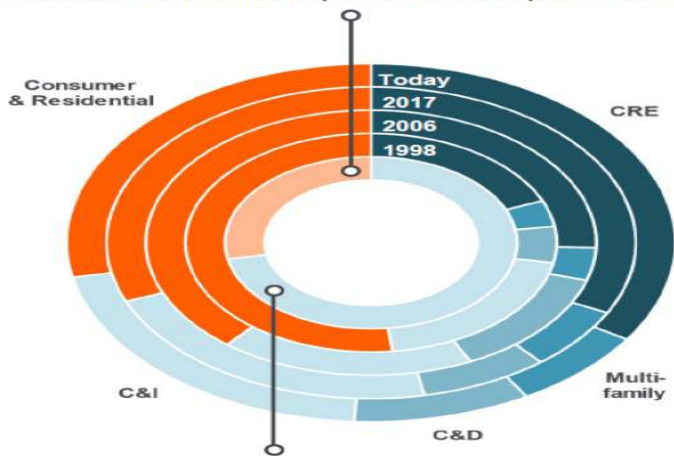
Data on deposit levels also shows banks [pulling back on some types of high-cost categories](#). Overall, deposits contracted 1.1% sequentially to \$17.338 trillion, while time deposits in accounts with balances of more than \$250,000 declined 4.6% to \$906.36 billion.

"Deposit growth slowed from [the first quarter], although mix-shift trends have started to stabilize," Jefferies analysts said in an Aug. 21 note, referring to the migration from low-cost to high-cost accounts. "We still expect deposit growth to come from interest-bearing accounts as long as interest rates remain relatively high and customers spend operating cash."

# Shifting Balance Sheets Reflects Investment in High Touch Relationships

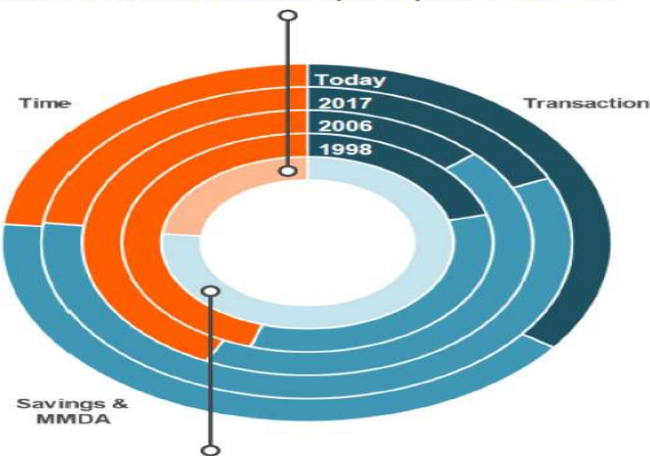
Commercial Relationships Seen As the Differentiator to Money Center Banks

Consumer & Residential require scale to compete efficiently



~70% of Community / Regional bank lending is now focused on Commercial and Small Business

Increased effort towards time deposits post-SVB Failure

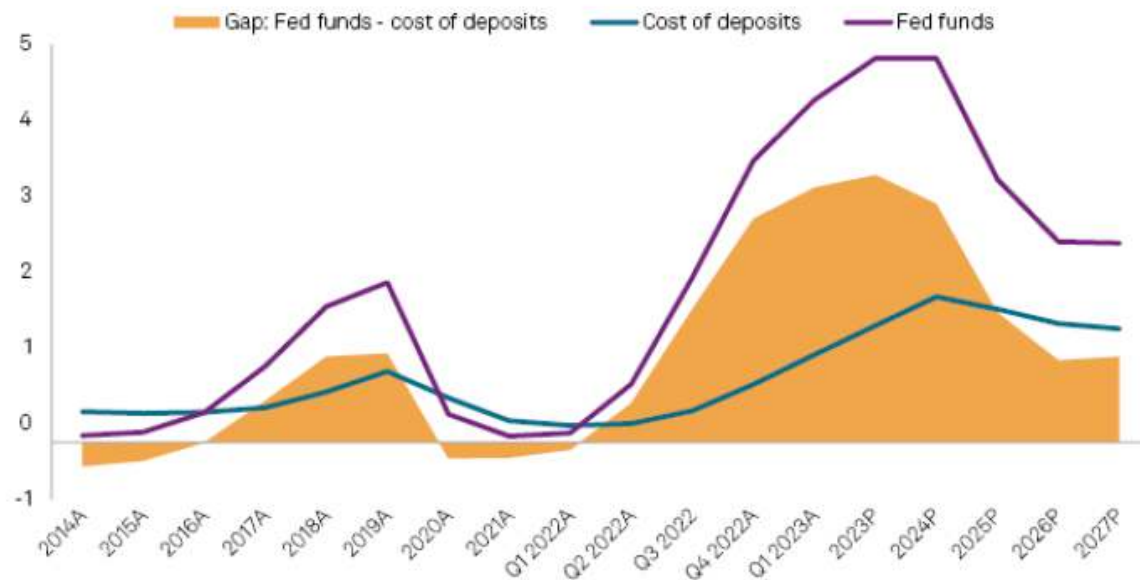


Commercial operating accounts were "Balance Sheet Gold" for the past 20 years

Note: Includes nationwide banks with total assets between \$1.0 billion and \$50.0 billion; Reflects bank level call report data; Reflects average values  
Source: S&P Capital IQ Pro

66% of banks plan to grow small business deposits

### Spread between community bank deposit costs and fed funds spurs deposit outflows (%)



Data compiled July 26, 2023.

A = actual; P = projected.

Sources: S&P Global Market Intelligence; proprietary estimates.

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# Comparison of 2Q2024 to 1Q2024 for Reporting Banks

Summary Comparison for the 159 Banks that have Reported 2Q2024 Financial Data

Balance Sheet Information				Key Profitability Items			
	Q1 2024	Q2 2024	QoQ Δ (bps)		Q1 2024	Q2 2024	QoQ Δ (bps)
Mean				Mean			
QoQ Δ Deposits (%)	1.2	0.7	(50)	Yield on Loans (%)	6.41	6.27	(14)
QoQ Δ Loans (%)	0.6	1.5	98	Cost of Total Deposits (%)	2.29	2.36	6
Loans / Deposits (%)	81.7	87.5	574	Cuml. Deposit Beta <sup>1</sup> (%)	41.4	41.6	16
ACL / Loans (%)	1.38	1.28	(11)	Cost of Funds (%)	2.61	2.61	(1)
TCE / TA (%)	7.61	8.40	79	Net Interest Margin (%)	3.13	3.20	7
AOCI / TCE ex. AOCI (%)	(16.0)	(12.3)	368	Core ROAA (%)	1.01	0.99	(1)
				NCOs / Avg. Loans (%)	0.29	0.26	(3)

<sup>1</sup> Represents change in cost of deposits and yield on gross loans as percentage of change in Fed Funds target in current rate hike cycle from December 31, 2021 to June 30, 2024. (525 bps)  
Notes: Data shown for top 250 exchange-listed banks that have reported Q2 2024 earnings ranked by assets descending. All loan metrics denote Loans HFI, if available; if unavailable, loan metrics use Gross Loans including loans HFI. Core profitability is calculated by S&P Capital IQ Pro based on publicly disclosed information. If a component of the calculation of "core" income is listed as "N/A" by S&P Capital IQ Pro, we have assumed the value is zero, where appropriate, for this presentation. GAAP metrics are used if core metrics are unavailable.  
Source: S&P Capital IQ Pro

## What are Community Bank Priorities in 2024?

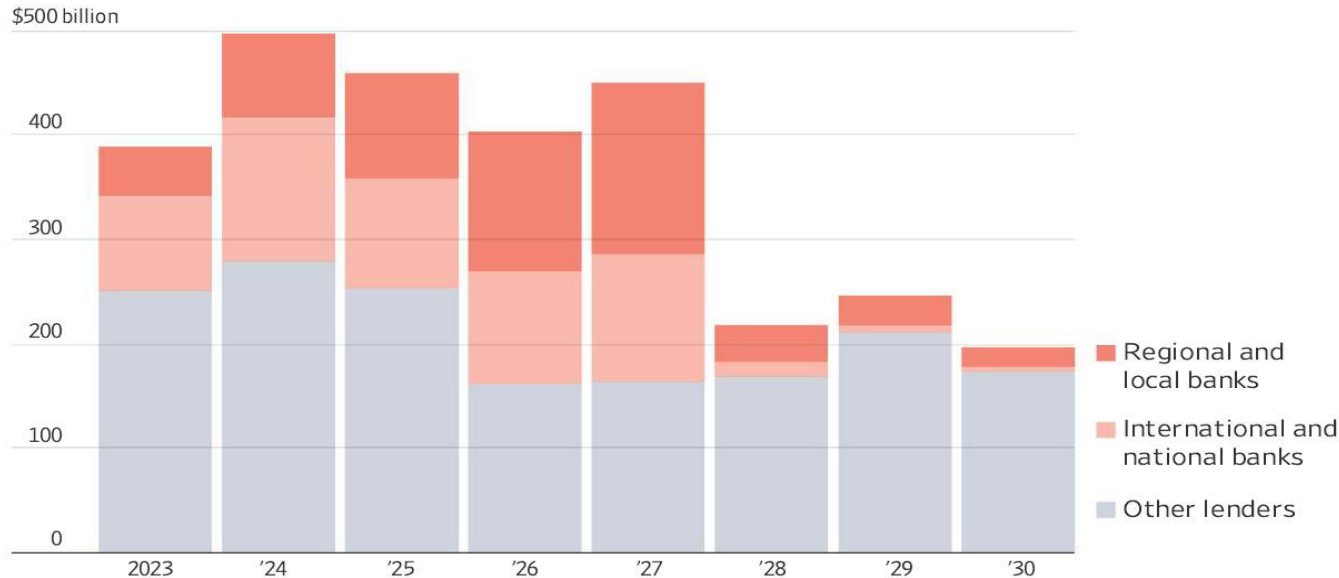
2023 Q4	Extremely Important	Very Important	Total
Net Interest Margin	42.8	46.1	88.9
Cost of Funds	46.8	40.1	86.9
Core Deposit Growth	39.4	44.4	83.8
Regulation	32.3	48.8	81.1
Economic Conditions	26.7	53.4	80.1
Cost of Technology	20.4	53.8	74.2
Loan Demand	17.2	43.9	61.1
Competition	12.1	48.2	60.3
Workforce Attraction	13.0	46.9	59.9
Speed of Technology	11.7	47.0	58.7
Climate	2.6	11.3	13.9

2022 Q4	Extremely Important	Very Important	Total
Net Interest Margin	34.8	53.4	88.2
Economic Conditions	32.8	51.2	84.0
Loan Demand	29.6	48.4	78.0
Cost of Technology	26.5	50.9	77.4
Regulation	29.3	47.5	76.8
Workforce Attraction	22.0	46.3	68.3
Speed of Technology	14.3	45.9	60.2
Competition	13.6	44.1	57.7
Cost of Funds	13.8	34.2	48.0
Core Deposit Growth	10.3	28.1	38.4
Climate	1.2	8.9	10.1

Findings from the 2023 CSBS Annual Survey of Community Banks Presented at the 11th Annual Community Banking Research Conference Oct. 4-5, 2023

# CRE Maturities

- In addition, almost \$1 trillion of loans will come due in 2024 and 2025, and a total of \$2.5 trillion in debt comes due over the next five years according to Morgan Stanley.

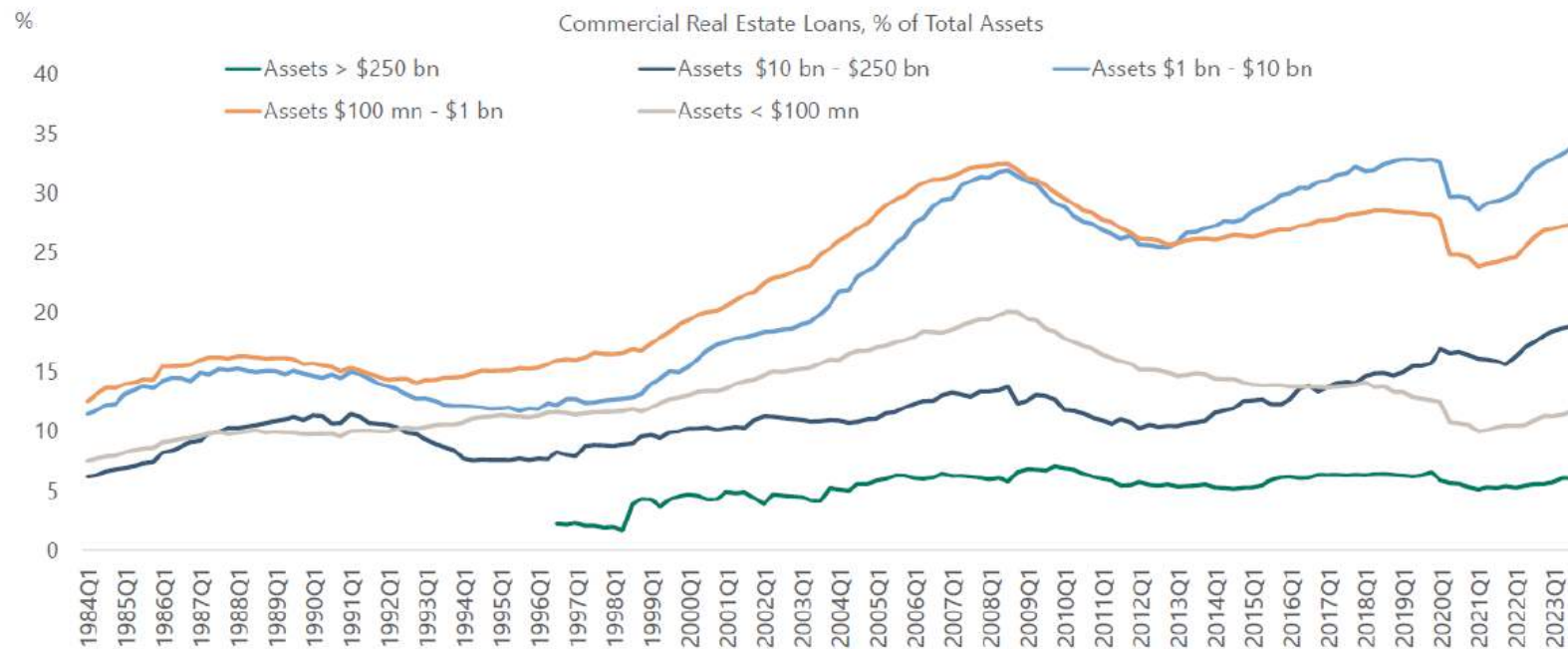


Note: Other lenders include commercial mortgage backed securities, insurance companies and private and government lenders.

Source: MSCI Real Assets

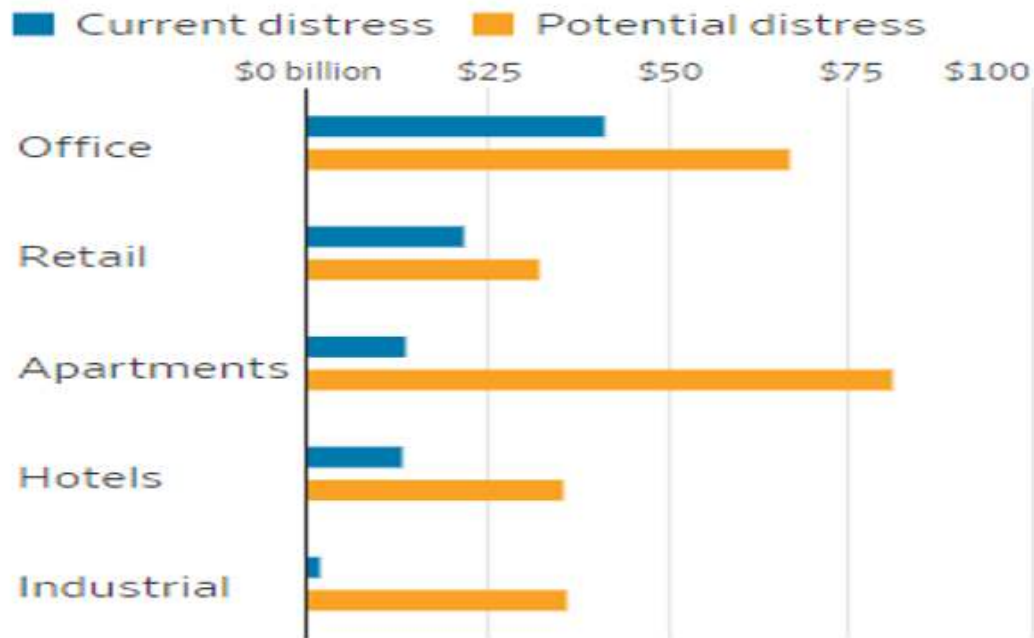


# Banks with Total Assets Between \$100mn and \$10bn are more Exposed to CRE Loans



Source: FDIC, Apollo Chief Economist

## Distress by Property Type



Source: MSCI U.S. Distress Tracker, Q2 2024

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# M&A Activity

# M&A through 2024

## 67 US bank deals announced in 2024



Data compiled Aug. 2, 2024.

Analysis limited to US-based whole company, minority stake, and franchise bank and thrift deals that were announced between Jan. 1, 2020, and July 31, 2024. Excludes branch, government-assisted and terminated deals, as well as bids and thrift merger conversions.

\* Quarter to date through July 31, 2024.

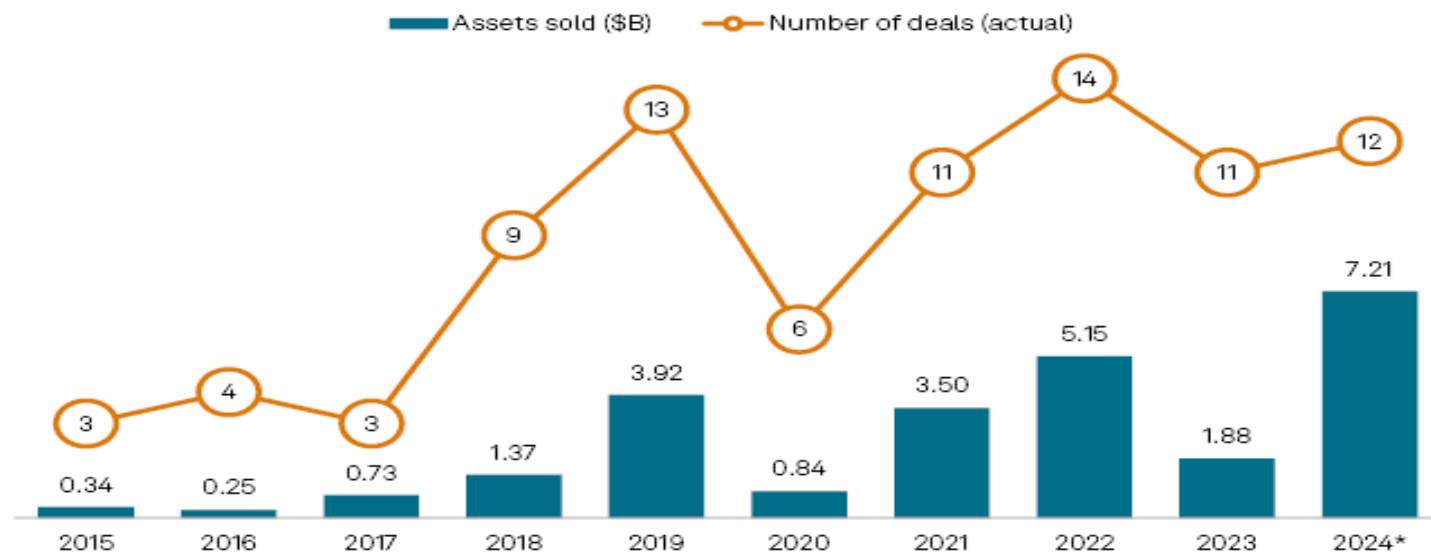
Deal values are as of the announcement date.

Source: S&P Global Market Intelligence.

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# M&A through 2024 (*cont.*)

## US credit union-bank M&A deals



Data compiled July 17, 2024.

Analysis limited to whole-bank and franchise deals announced between Jan. 1, 2015, and July 16, 2024, in which US credit unions are buyers; excludes branch, government-assisted, minority-stake and terminated deals, as well as thrift merger conversions.

\* Year to date through July 16, 2024.

Total assets for the targets are as of the most recent quarter before the deals' announcements.

Source: S&P Global Market Intelligence.

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# Why M&A for Buyers?

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- Greater Scale and Efficiency – overall operating costs keep increasing, especially labor and energy
- Net Interest Margins (NIMs) are continuing to contract/overcome NIM challenges
- Potential funding source
- Concentration relief
- Loan demand is mixed; declining in certain loan types / New loans at FMV help offset legacy loan rates
- Many banks will not be able to grow earnings
- Geographic expansion/diversity

# Investor Expectations for 2024 Reflect Continued Challenges

Eyes have Turned to 2025 for a Return to Normalcy

Reflects Median Values

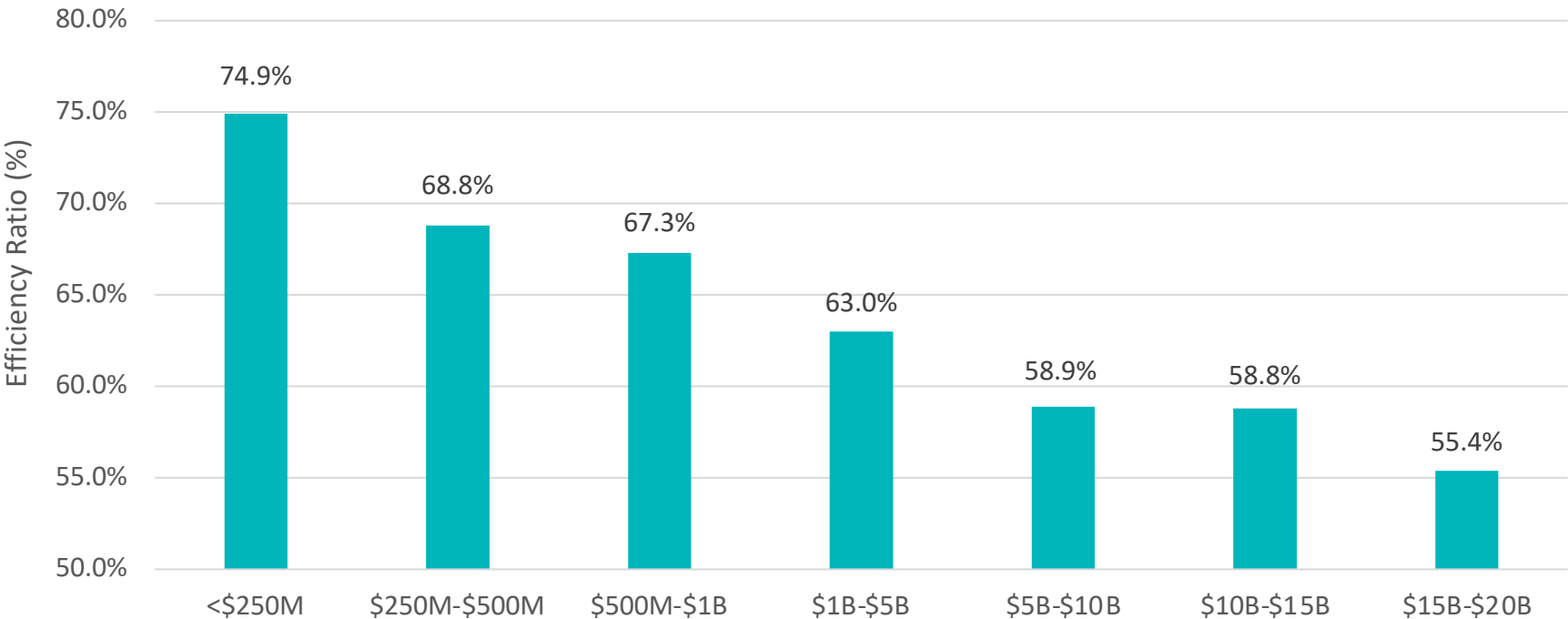
	2024E vs. 2023E	2025E vs. 2024E
EPS	(7.0%)	+8.7%
TBVPS	+9.4%	+9.6%
ROAA	(10bps)	+4bps
ROATCE	(205bps)	(12bps)
NIM	(10bps)	+5bps

Note: Includes nationwide major exchange traded banks (322 banks); Excludes merger targets; Reflects median values of most recently available analyst estimates.  
Source: S&P Capital IQ Pro



# Achieving Economies of Scale With Size

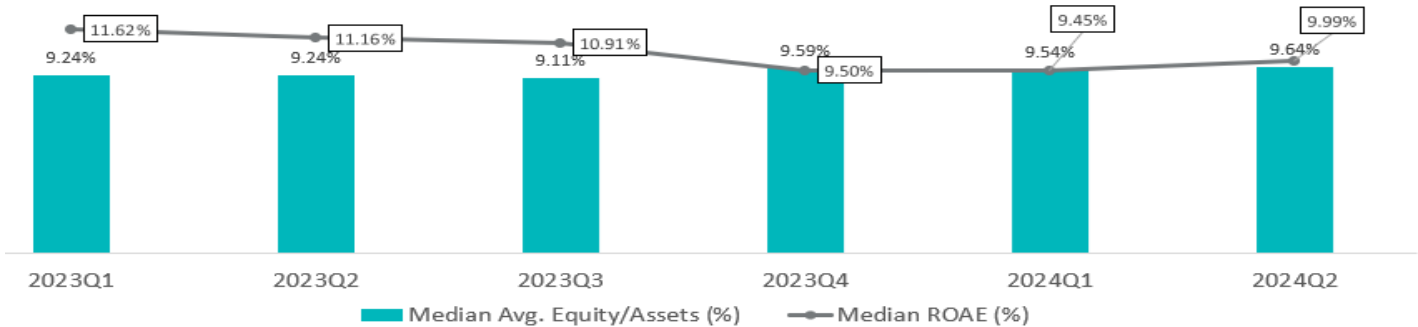
Median Most Recent Fiscal Year Efficiency Ratio by Asset Size



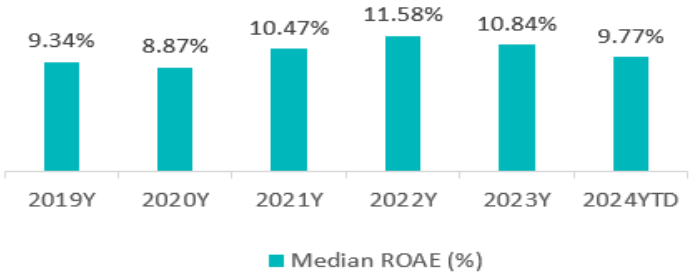
Source: S&P Capital IQ as of Q4 2023

# Community Bank Return on Average Equity

Quarterly ROAE (%)



Yearly ROAE (%)



- Median values are derived from a nationwide population of regulated depositories with total assets under \$10.0B in the respective time period shown
  - As of Q2'24, there are 4,779 regulated depositories with assets under \$10.0B

Source: S&P Capital IQ Pro  
Top Tier Consolidated Bank Holding Companies, Savings & Loan Companies, Commercial Banks, Savings Banks, and Savings & Loan Associations with total Assets < \$10B in the respective time period shown.

# We Still Think Fintech is the Future

## We Still Think Fintech is the Future



**88% of US Consumers use Fintech apps**



**65% of US Consumers use Digital Banking**



**3x Expected Growth in Fintech Revenue vs.  
Traditional Bank Revenue '23-'28**

### Cornerstone:

- 70% of banks partnering with Fintech see it as at least a moderate driver of growth

# Why M&A for Sellers?

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- Concentrations limit the ability to grow loans
- Cost-cutting has reached its limits and is reversing; sellers have 10%+ higher efficiency ratios than buyers
- Shrinking NIMs / rising Cost of Funds (COFs)
- Regulatory pressure / 0% tangible capital
- Coming decline in quality buyers?
- Management succession
- Excess liquidity has dissipated

# Expectations for Remainder of 2024 and 2025

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- Pace of M&A is picking up; pent-up demand
- Appreciation in bank stock values allow publicly-traded buyers to return to market
- AOCI marks will continue to dissuade some would be M&A participants
- Bond distribution as part of merger consideration
- Buyers continue to expect 3 year or less Tangible Book Value (TBV) earnback; Heartland/GABC
- Increase in MOEs/strategic combinations, especially of < \$500mm banks
- Investor groups buy small banks in lieu of forming de novos
- More FDIC-assisted transactions
- More branch transactions

# Branch Transactions

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- Exiting markets
- Increase Capital
- Reduce Expenses/Overhead
- Variable deposit pricing
- Selection of Assets to be Sold
- Concerns:
  - Concentrations?
  - Post-transaction ratios? Are assets matching deposits?
  - Composition of remaining assets?
  - Seller remaining liquidity?



# Timing

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- When should banks consider selling?
- vs.
- When do banks consider selling?
- Do not start the process just to see what the bank may be worth
- Creates risk to various constituencies

# Strategic Plan

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Decision to “just say no” is a fiduciary decision. It must be:

- Well informed
- Based on strategic plan
- Supported by projections

Key to strategic plan:

- Plan should consider short- and long-term interests
- Analyze the data (historical and prospective)
- True road map for asset and earnings growth based on reasonable assumptions
- Risk appetite
- Assistance from investment banker

# Preparing to be a Buyer

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Consider various acquisition opportunities:

- Traditional
- Branching (de novo or P&A)
- Organic growth / digital
- Deposit strategies
- BaaS / Embedded finance
- “Lift outs”
- Wealth management

# For Potential Buyers – What To Do?

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- Capital plan – sufficient cash, stock authorized
- Strategic plan/M&A roadmap – rural rollup, fill in and adjacent markets, stock buyer, etc.
- Apprise team and regulators
- Is your house “clean”?
  - Asset quality
  - Pro forma capital and concentration ratios
  - Compliance/BSA/ Fair Lending
- Consider a financial advisor to assist in evaluations
- Consider the bank’s “compensation stack”
- Conducive culture

# For Potential Buyers – What To Do?

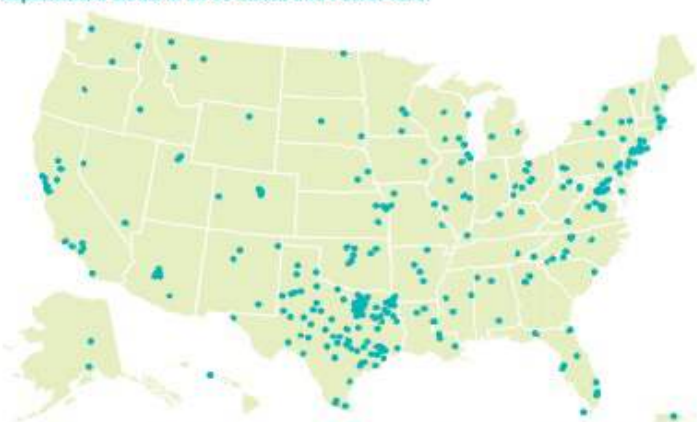
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- Strategic Plan / Integration
- Analysis of pro forma business plan and financials
  - Confirm transaction falls within current capital plan or outline plan to return
  - Evaluate target deposit stability (decay)
  - Combined on-balance sheet liquidity
  - Address current regulator concerns and ratios in application
    - Telegraph updated risk limits around liquidity and interest rate sensitivity
    - Provide pro forma stress testing

# Our National Reach

Represented banks in all 50 states and Puerto Rico.



Hunton Andrews Kurth is consistently ranked at the top of national league tables based on number of deals for banks.

S&P Global

<p><b>#1</b></p> <p>MERGERS &amp; ACQUISITIONS IN SOUTHWEST AND MIDWEST 2021</p> <p>CAPITAL MARKETS OFFERINGS IN TEXAS 2017-2021</p>	<p><b>#3</b></p> <p>MERGERS &amp; ACQUISITIONS NATIONWIDE 2012-2021</p>	<p><b>#4</b></p> <p>CAPITAL MARKETS TRANSACTIONS NATIONWIDE AS UNDERWRITERS' COUNSEL 2021</p>
<p><b>#2</b></p> <p>MERGERS &amp; ACQUISITIONS IN TEXAS 2017-2021</p>	<p><b>#5</b></p> <p>MERGERS &amp; ACQUISITIONS NATIONWIDE 2021</p>	<p><b>#6</b></p> <p>CAPITAL MARKETS TRANSACTIONS NATIONWIDE AS ISSUERS' COUNSEL 2021</p>

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