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CAPITAL SOURCES Mike Seemuth

Healthy bank mergers unlikely to drive industry consolidation

A \$38 million merger that combined profitable banks in Boca Raton and the Tampa area is an unlikely signal that lots of similar deals are brewing. Friendly mergers of moneymakers in the banking industry may become more common as the economic recovery advances. But sales of sick banks to healthy ones probably will continue to drive the industry's consolidation this year.

Consider the latest acquisition by capital-rich **1st United Bancorp**, a publicly held bank holding company in Boca Raton that has bought seven banks since 2004 and just

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J. ALBERT DIAZ

Ken Thomas, a Miami-based independent bank consultant says mergers of money-making banks will remain rare in a recovering economy.

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CAPITAL SOURCES: \$38M merger of profitable banks not likely to start trend

bought a profitable one for the first time since 2008. 1st United this month paid \$38 million in cash and stock for **Anderen Financial Corp.**, and its subsidiary **Anderen Bank**, formed in 2007 and based in Palm Harbor, just north of Tampa.

The April 1 acquisition gave 1st United Bancorp's subsidiary, **1st United Bank**, a bigger presence in Central Florida. 1st United Bank has more than a dozen locations in tri-county South Florida, including its operations center and branch office in West Palm Beach, three other branches in Palm Beach County and four each in Broward and Miami-Dade counties.

1st United hardly overpaid, though. The \$38 million price tag was roughly equal to the equity capital, or book value, of Anderen Bank, rather than a higher multiple of book value, a common way to value banks prior to the U.S. economic recession from 2007 to 2009.

"During the good years, the rule of thumb was, they were getting at least two to three [times book value] for good banks," said **Ken Thomas**, Miami-based independent bank consultant. "Now, if you get 1, it's good."

Thomas also said mergers of money-making banks will remain rare in a recovering economy because many owners of profitable banks are unwilling to sell for less than a large premium to book value.

"The few strong banks that are around now, they're not going to sell out because this is clearly not a seller's market," Thomas said. "It's a buyer's market. Why would you sell something good now and get a low price? Why should a healthy bank sell out now at a minor premium, at one to 1.5 times book? When times get better, they can get maybe two."

Those types of questions apparently ended a review of strategic options earlier this year at Miami Lakes-based **BankUnited**. In response to media reports that profitable BankUnited was for sale, the bank's holding company said Jan. 18 in a press release that it "considered its strategic alternatives" before deciding to remain "an independent institution." **Kelly S. King**, chairman and chief executive officer of North Carolina-based **BB&T**, said the next day in a televised interview that BB&T was interested in acquiring BankUnited but that the Miami Lakes bank was pricier than he and his team preferred. Proposed terms weren't disclosed.

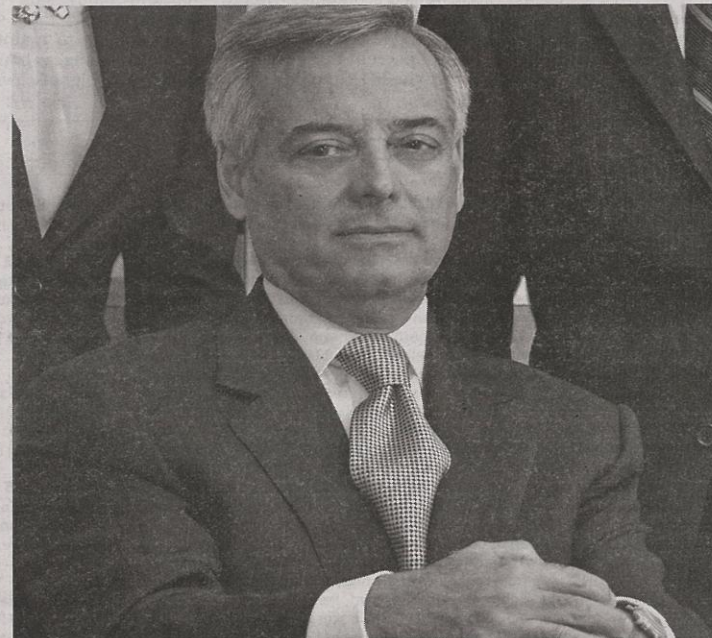
1st United's acquisition of Anderen was a so-called "open-bank" merger of two profitable institutions, the type that could drive the next great wave of industry consolidation after the surge in forced sales of failed banks starts to recede. 1st United Bank earned \$3.9 million of net income last year, up from \$2.2 million the year before. Anderen Bank earned about \$1 million of net income last year, reversing a \$3.4 million net loss in 2010.

The Anderen deal was the first open-bank acquisition by 1st United since 2008. In the last three years, the bank holding company has acquired loans and deposits of three failed banks, including two in Miami-Dade, after the Federal Deposit Insurance Corp. agreed to share future losses on the loans. The FDIC estimated at the time of their collapse that the failures of the three banks



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Michael V. Mitrione, a shareholder in Gunster's West Palm Beach office, foresees growing pressure on smaller banks to get bigger.

1st United acquired (**Bank of Miami** in Coral Gables, **Republic Federal Bank** in Miami and **Old Harbor Bank of Florida** in Clearwater) would cost the deposit insurance agency a total of \$225.9 million.

"What makes it hard to do unassisted, or open-bank, deals is a lot of the bankers are still getting their arms around whether they have indentified all of the problems in their loan portfolios," said **Michael V. Mitrione**, a share-

holder in the Gunster law firm's West Palm Beach office.

Mitrione and **David C. Scileppi**, a shareholder in Gunster's Fort Lauderdale office, who represented 1st United in its acquisition of Anderen, foresee growing pressure on smaller banks to get bigger.

"Clearly, the ones under half a billion [dollars of assets] are going to be challenged," Mitrione said, citing rising technology expenses and regulatory compliance costs. "It's more and more difficult for them to stay profitable."

Small banks' compliance burden is expected to increase as regulators implement financial industry reforms under the wide-reaching Dodd-Frank Act. But Scileppi said many banks already are struggling to replace lost fee income due to the Federal Reserve Bank's 2009 order limiting overdraft protection on checking accounts to consenting customers. Many customers subsequently opted out and stopped paying fees for overdraft protection.

"For smaller banks, that was as very profitable fee," Scileppi said, "so they're trying to figure out different ways to replace all that fee income that they've had in the past." He said the loss of overdraft-protection fees and the looming implementation of the Dodd-Frank Act have increased pressure on banks with less than \$1 billion of assets to consider mergers.

"Banks that are smaller than that \$1 billion range, they kind of need to be buyers or sellers," Scileppi said. "Either they need to buy to grow to a size where they can be profitable, or they need to get bought out."