AMERICAN BANKER
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Well-Heeled Buyers Turn Up Heat in Southeast Failed-Bank Market

American Banker | Tuesday, July 20, 2010

By Robert Barba

Armed with more money and less baggage, private-equity funds are staking their claims in the Southeast banking market, changing the landscape of failed-bank dealmaking as they go.

On Friday, North American Financial Holdings, bolstered by a $900 million December capital-raising led by the private-equity firm Crestview Partners, picked up three failed banks in the Southeast — two of them in Florida — on the heels of a $175 million planned investment in a Florida bank company.

A week earlier, Hovde Acquisition, a Washington private-equity firm, used its new thrift charter to buy the failed $282 million-asset Bay National Bank in Baltimore.

Analysts said North American may make it harder for Florida banks to make plays for their fallen brethren and that the extra competition could send prices higher.

"There probably will be stiffer pricing" for failed banks, said Nicholas Ketcha Jr., a managing director at banking consultant FinPro and a former Federal Deposit Insurance Corp. director of supervision. "The FDIC has to take the least costly bid [to the Deposit Insurance Fund], so existing banks are going to have to step it up."

That is, if Florida banks are cleared to bid at all. Neil Grayson, the head of the financial institutions division at Nelson Mullins Riley & Scarborough LLP in Atlanta, said only the healthiest institutions are winning regulatory approval to buy failed banks.

This gives groups that use shelf charters to buy failed banks even more opportunity.

"The regulators won't approve any extensionary activity if you don't have a satisfactory rating, even if [you] just raised more capital or brought in new management," he said. "That means that groups like [North American] have an advantage because they are not saddled with the same restrictions."

This would reflect something of a shift. Private-equity leaders, including billionaire financier Wilbur Ross, have said existing banks hold an advantage in failed-bank deals because they can bid higher, expecting cost savings as they realize efficiencies during integration.

Groups using shelf charters have no infrastructure, so they feel pressure to go after bargains.

Investor pressure might make for more aggressive bidding. Private-equity firms and groups like North American backed by private equity often have specific time frames in which their capital must be deployed. Confronted with the possibility of investors' pulling out their money, private-equity groups are more likely to bid up failed banks to ensure victory.

"Typically, if that money is not deployed by a certain time, it will start to evaporate," said Christopher Zinski, a partner at Schiff Hardin LLP in Chicago. "So there is more pressure to get the first bank under their belt. I think we are going to see more aggressive behavior by the PE firms, and that is ultimately going to lead to a more competitive landscape."

Van Bogan, the chairman of the Florida Bankers Association and chairman of the $169 million-asset Florida Bank of Commerce in Orlando, said the increased competition from private-equity groups is not necessarily a bad thing. After all, a private-equity group comprises bankers that want to build a bank and make money, he said.

Then again, "you get concerned when you have a North Carolina group picking up...banks in Florida, where they're not even in those markets," he said, referring to the Friday's deals, in which Charlotte-based North American picked up two of the Florida banks. "You'd think a player in-market would be better and able to understand that group and community."

Analysts said North American's ascent is making an already competitive market feel as hot as Florida in July.

"They've built a particularly formidable franchise with these couple of moves," said Ken Thomas, a Miami-based independent bank consultant and economist. "They will have many, many more opportunities to follow I-95 and I-75 and build the bank they want."

In Florida, North American now has footholds in the Keys, Miami-Dade County and Naples, Thomas said, a solid base on which to build.

North American is led by Eugene Taylor, a former vice chairman of Bank of America Corp. Taylor, a native Floridian, could not be reached for comment Monday but has expressed his intent to deploy at least a significant portion of the capital he and his group raised in his home state.

"There is a shortage of capital in the state," Taylor said in an interview on June 30.

Taylor's bullish approach toward Florida and the Southeast in general, is a positive for the capital-starved region, analysts said.

"There are not enough buyers to deal with Florida," said Walter Moeling 4th, a partner at Bryan Cave in Atlanta. "There continues to be enough FDIC opportunity in markets that are disasters, like the Sunbelt."

For that reason, Tony Plath, a finance professor at the University of North Carolina at Charlotte, said existing banks should not be discounted as potential acquirers.

Despite the FDIC's new willingness to let private-equity firms take over failed banks, Plath said, "there are a lot of problem banks, and they [the FDIC] need to restore the industry, and they can't take 10 years to do it."

The game plan for groups like Taylor's is to buy six or seven failed banks at attractive prices, consolidate them, build a multibillion-dollar regional operation and then take it public at 1.5 to 2 times book in five years or so, Plath said.

"The Southeast is the most fertile breeding ground for that kind of strategy," he said.

If that is so, North American got halfway there with Friday's deals. It bought the $442 million-asset Metro Bank of Dade County in Miami and the $264 million-asset Turnberry Bank in nearby Aventura, Fla., out of receivership. It also picked up the $682 million-asset First National Bank of the South in Spartanburg, S.C. Collectively, the banks were rebranded as NAFH National Bank.

The deals came after an announcement last month that it would invest $175 million for a 99% ownership stake in TIB Financial Corp. in Naples, Fla.

Grayson, the Atlanta observer, said North American will probably continue to use its shelf-charter bank for failed-bank acquisitions because it has a clean slate as it helps TIB work through its considerable credit-quality issues.

Yet in a press release issued late Friday, Taylor, who is North American's chairman and chief executive, nodded to the likelihood that the group's interests will be combined at some point.

"Together with our planned investment in TIB Bank, today's transaction continues our progress toward building a strongly capitalized, high-performing, regional bank," he said.

Rachel Witkowski and Kate Davidson contributed to this story.
