

M&T Buying a Rarity in Wilmington: Fee Factory

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M&T Bank Corp.'s deal to buy Wilmington Trust Corp. is about two things: fees, and more fees.

The target's two big fee engines — wealth management and corporate services — make M&T willing to buy its problems.

Wilmington Trust has a sizable amount of troubled construction loans to Delaware home builders. Mounting problems in that portfolio, which M&T expects to lose more than \$500 million, forced Wilmington Trust to find a buyer.

With consumers and businesses borrowing less, banks want revenue sources that don't involve collecting loan interest. Institutions that have come through the recession relatively well like M&T are looking to acquire fee businesses, experts said.

In that sense, this transaction could set a precedent, because M&T is not buying a bank for its loans and deposits.

That sort of play has been unusual in bank mergers since the early 2000s, when banks bought a lot of subprime lending and insurance businesses in search of more fees.

A repeat of that type of deal wave is unlikely, though, making M&T's \$351 million deal for the \$10.5 billion-asset Wilmington Trust a one-off affair.

Fee-based financial businesses are rare and tend to operate in areas plagued with uncertainties, like the insurance and home mortgage industries, experts said. Two banks that have recently bought into those areas — First Niagara Financial Group Inc. in Buffalo, N.Y., and New York Community Bancorp Inc. in Westbury — are healthy enough to take on some volatility to raise fees. Few healthy banks are willing to take such a chance right now.

Wilmington Trust is also unique, experts said.

It takes in more fees than typical banks, which tend to make most of their money collecting more interest from borrowers than they pay out to depositors. That makes it special. But it also made too many loans to people it shouldn't have before the economy collapsed. There's nothing special about that.

So it has a stellar fee business, taking in some \$93 million in advisory fees last quarter. But its lending business is hurting. Overdue loans skyrocketed last quarter, forcing it to set aside some \$281 million to cover loan losses. That was 37% more than it set aside in the prior quarter.

"We were trying to meet the needs of building contractors who were building single-family homes for those people who were thinking of retirement," Wilmington Trust Chairman and Chief Executive Donald Foley told analysts in a conference call Monday. "The Delaware market for that particular type of housing dried up completely."

M&T has the financial strength to absorb the pending losses in Wilmington Trust's commercial lending book, Robert Wilmers, M&T's chairman and CEO, assured analysts. And it's worth it, he said, because "the strategic fit between the two firms is unusually compelling."

Buying Wilmington Trust would be a coup for M&T regardless of the seller's troubles, experts said.

"Fee income is a very limited business opportunity. When someone like Wilmington comes along who is very good at it — I think it's a great acquisition," said Donald J. Musso, president and CEO of FinPro, which advises community banks on mergers and acquisitions.

And it's an attractive deal financially.

M&T has agreed to pay just \$351 million — or \$3.84 a share — for Wilmington Trust's 48 branches and \$10.4 billion of assets.

Wilmington Trust's stock closed at \$7.11 on Friday, and its book value was more than \$1 billion at the end of the summer. (The stock on Monday finished at \$4.21, down 41%.)

If the deal closes as expected in the middle of 2011, M&T would immediately double the amount of fees it collects advising wealthy people. That means it wouldn't have to rely as much on bumpy revenue streams like mortgage banking, which gave its earnings a lift last quarter. M&T also would gain access to financial companies and services businesses all over the country that pay Wilmington Trust for help doing things like registering shares and keeping track of changes in ownership of its securities.

Those are new customers that M&T, which has \$68.2 billion of assets, could sell its corporate banking services.

"Wilmington Trust brings us leading deposit share in a market contiguous to our existing markets," Rene Jones, M&T's chief financial officer, said Monday in a conference call with analysts. "This transaction brings together two complementary financial institutions."