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New Jersey ripe for consolidation

By [Nick Gorski](#)

Fueled by an influx of capital, New Jersey could be a hotbed for acquisitions as the economy continues to recover and companies begin looking for growth.

Multiple factors will contribute to consolidation within the New Jersey market. As in much of the country, higher regulatory costs, capital constraints and the overall changes to the banking environment will take their toll on management and director teams, especially at smaller firms.

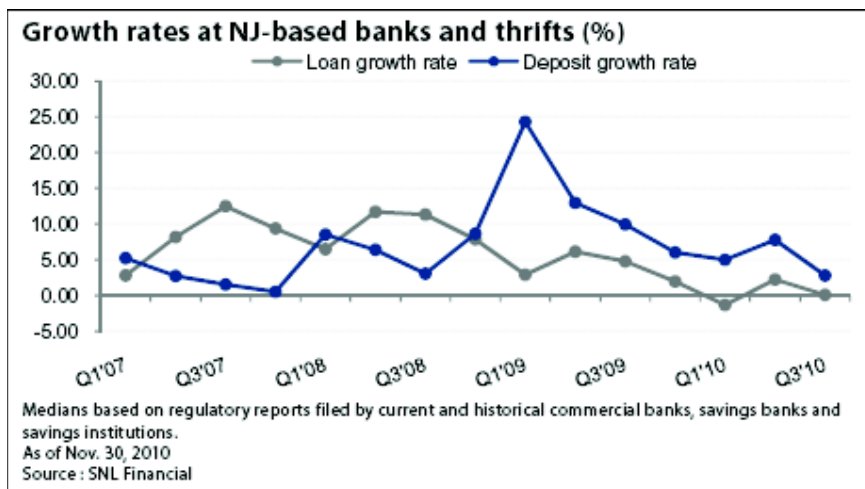
"As a firm, we don't believe that you necessarily need to be \$1 billion to survive in the new environment," said Dennis Gibney, managing director at FinPro Inc. "But there will be a large portion of smaller shops that we expect to be consolidated over the next couple of years."

Frank Schiraldi, an analyst at Sandler O'Neill, said that many smaller-sized companies, which he classified as "de novo institutions," are "pretty much ready to throw in the towel" as regulatory costs increase. He also noted that it may be more difficult for banks around \$500 million in assets to continue to earn a "decent" return on assets and remain independent. "[N]ationwide, it's just the ability or inability to grow top-line revenues," he said. "I think consolidation makes a lot of sense and is going to be something that helps drive profitability going forward."

Another factor for New Jersey consolidation is the influx of new capital seen over the past several years. "One thing that does make New Jersey unique, relative to other parts of the country, is the high level of institutions that have raised capital in the market, predominantly through mutual to stock conversions," Gibney said.

Oak Ridge, N.J.-based [Lakeland Bancorp Inc.](#) President and CEO Thomas Shara said that while there will be small banks looking to sell, larger banks could be looking to establish a foothold — or build on one they already have — in the state. "There's still a great desire on the part of some of the bigger banks to get into New Jersey, because of the demographics," he said. "My sense is that '11 is going to be pretty active."

Deals will likely begin to pick up midyear, Shara said, as banks conduct their year-end budgets and estimates, and realize that it is harder to earn profits.

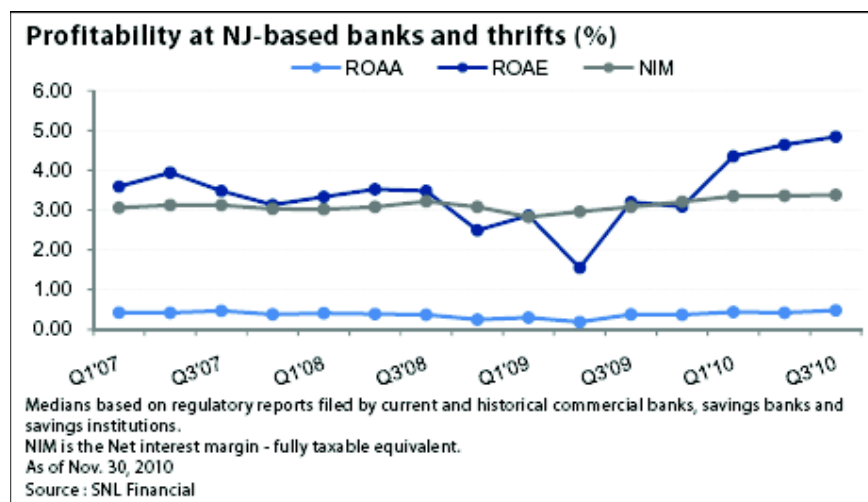


Many companies, including Township of Washington, N.J.-based [Oritani Financial Corp.](#), Vineland, N.J.-based [Colonial Financial Services](#) and Ocean City, N.J.-based [Ocean Shore Holding Co.](#), have recently completed conversion offerings, leaving them with excess capital on their balance sheets. Private equity money has also recently flowed into New Jersey banks' coffers. In September, [Sun Bancorp Inc.](#) completed a \$106.7 million investment from private equity funds managed by [WL Ross & Co. LLC](#), among other investors.

PL Capital Group principal Richard Lashley said that the excess capital in the state will be a driving force behind M&A going forward, partly because New Jersey is a slower-growth market. "When you have too much capital and you have a mature market that's not growing quickly, what do you do?" Lashley asked. "If you want to grow, you buy."

While small community banks are the most likely sellers, some larger companies could look for mergers in time. Schiraldi said that Lakeland, a franchise with \$2.77 billion in assets, could eventually attract buyers. "I know that there's certainly been a lot of interest in that one," he said. "I don't know what their thoughts are on selling, but I think that could be a potential target over the next three to five years."

Shara, for his part, said that Lakeland has historically focused on organic growth, but is willing to look at making acquisitions also. "We are planning to do acquisitions over the next couple years," he said.



Schiraldi also said that Toms River, N.J.-based [OceanFirst Financial Corp.](#), could be a target in the longer term. However, in the short term, he said the company would likely pick up smaller banks.

The big buyers, Lashley said, are Wayne, N.J.-based [Valley National Bancorp](#) and Short Hills, N.J.-based [Investors Bancorp Inc. \(MHC\)](#). Lashley said he did not follow Investors that closely, but that they had done a few deals in the past with cash. He said the company could likely do a fill-in acquisition now, but anything larger would require a second-stage conversion.

It remains to be seen whether Valley will look to do more deals in New Jersey, which it has not done since [acquiring](#) Totowa, N.J.-based [Greater Community Bancorp](#) in 2008. In [November](#), Chairman, President and CEO Gerald Lipkin said at a financial conference that Valley is looking to expand eastward toward Long Island. While Valley has bid on FDIC-assisted transactions, the two auctions it has done were both for New York-based banks; it bid on a New Jersey failure in 2009, but did not win.

Boenning & Scattergood analyst Jason O'Donnell said Valley is still looking to do acquisitions, but that New York is the area they are more focused on. Within New Jersey, he said, the company does not have an appetite for large deals, but the company does have a few fill-in opportunities. "If you look at the northern New Jersey market, there are some places that they could still go," he said, adding that central New Jersey is also on the table. "If they had their druthers, they would move to New York first, but there's not as many opportunities in the markets that

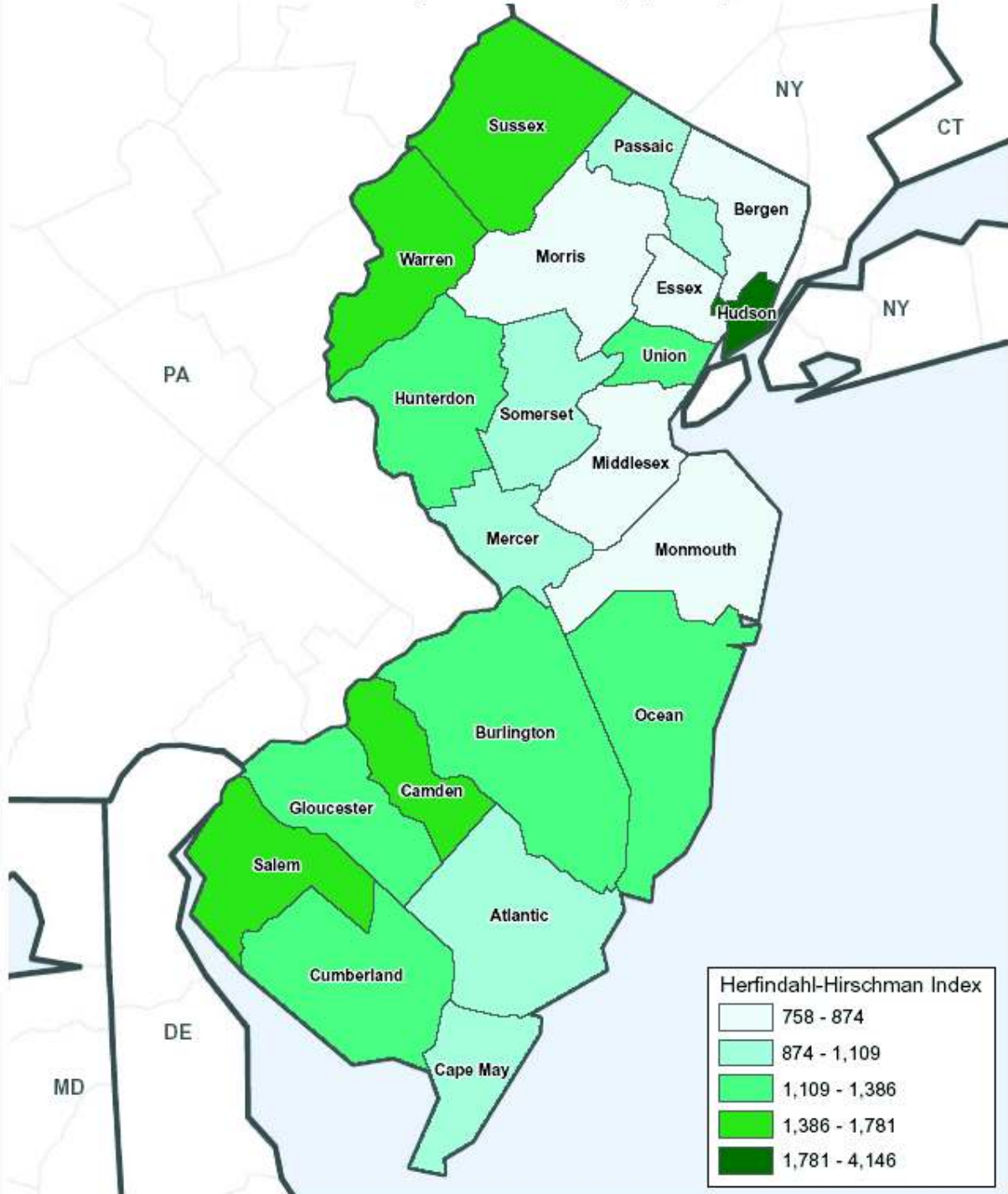
they're evaluating currently," he said.

Gibney also noted that several companies that completed their first-stage conversions in the not-so-distant past, including Fairfield, N.J.-based [Kearny Financial Corp. \(MHC\)](#), Robbinsville, N.J.-based [Roma Financial Corp. \(MHC\)](#) and Avenel, N.J.-based [Northfield Bancorp Inc. \(MHC\)](#), are still well-positioned to be acquirers. Northfield received both [regulatory](#) and [shareholder](#) approval to go forward with its second-stage conversion, but decided to [delay](#) it due to "unfavorable market conditions."

Some of these companies already have made acquisitions this year. Kearny completed its first-stage conversion in [2005](#), and recently [closed](#) the [acquisition](#) of Oakhurst, N.J.-based [Central Jersey Bancorp](#). Roma, which converted to the MHC structure in 2006, completed its acquisition of Mount Laurel, N.J.-based [Sterling Banks Inc.](#) in July and has a tangible common equity to tangible assets ratio of 11.73%, as of Sept. 30, according to SNL data.

Buyers may be flush with capital, but there are still only so many targets available in the state, Lashley pointed out. "If you want to get market share, there's only a handful of companies you can buy in any given market," he said. "New Jersey has been consolidated quite a bit already."

Herfindahl-Hirschman Index for NJ deposit market share, by county



Herfindahl-Hirschman Index is calculated by squaring the deposit market share of each bank or thrift in the market and then summing the resulting numbers. Bank and thrift branches are weighted equally. Credit union branches are not included. Non-retail branches are excluded. Based on June 30, 2010 deposit data from the FDIC. Source: SNL Financial