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Small bank world after all

By Robb Soukup

FinPro CEO and President Don Musso said predictions for an earth-moving amount of consolidation in the banking industry are the result of investment bankers' desperation for deals.

Musso, speaking at this firm's Presidents and Directors Conference on Oct. 7, doubled down on the sentiment he expressed last year at the event, when he urged community bankers not to be "fear mongered" into agreeing to a merger. He said the past year has shown that his doubts about consolidation were well-founded. "Everybody in the world kept calling for massive consolidation; I kept saying 'I don't know if it's going to happen.' ... It hasn't happened," he said. And, again, he derided a belief among some in the banking industry that institutions will need to have at least \$1 billion in assets to survive as Dodd-Frank is implemented. "The billion dollar myth is just that ... you do not need to be \$1 billion to survive," he said. He admitted that scale would help banks more easily absorb increased regulatory costs but said his firm works with a number of smaller institutions that have maintained desired levels of profitability.

He placed the blame for that belief on one constituency in the merger process. "You know who propagates this? My industry, the investment bankers — we are the problem," Musso told the audience of community bankers. He remains skeptical that the industry will be drastically smaller just a few years from now. "I don't believe M&A is going to explode," he said. "I don't believe we're going to have 3,000 banks left in three years."

Still, at a conference dominated by the topic of strategic choices for community bankers, Musso told the audience that they needed to determine where their institutions are positioned — whether they are a "buyer or seller or spectator." He said that most community banks, small and often with illiquid capital structures, will likely be spectators. He also said that many of them are focused on the potential for consolidation when they should be focused internally, and regulators would not even consider letting their institution undertake a merger.

He did say, however, that there are signs that the regulatory community is beginning to take a less skeptical view of many proposed institutional pairings. "The regulators are entertaining deals that a year to 18 months ago they wouldn't have," he said.