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## Mid-Atlantic sees slight pickup in deals

By Nick Gorski

There have been some signs that the merger and acquisition market is improving slightly in the mid-Atlantic region, at least among smaller banks.

Three deals were announced in the mid-Atlantic last month: Stroudsburg, Pa.-based [ESSA Bancorp Inc.](#)'s acquisition of Bethlehem, Pa.-based [First Star Bancorp Inc.](#); Philadelphia-based [Beneficial Mutual Bancorp Inc. \(MHC\)](#)'s purchase of [SE Financial Corp.](#); and Sandy Spring Bancorp Inc.'s acquisition of Annapolis, Md.-based [CommerceFirst Bancorp Inc.](#) All three deals were on the small side, with the asset size of the targets less than \$500 million and the deal compensation less than \$35 million.

Deal pricing for mid-Atlantic banks and thrifts with less than \$1 billion in assets									
Based on deals announced since Jan. 1, 2011									
Buyer				Target		Deal pricing			
Ann. date	Comp. date	Company (ticker)	City, state or country	Company (ticker)	City, state	Assets (\$M)	Deal value (\$M)	Premium/core dep. (%)	Price/tangible book (%)
12/21/11	Pending	ESSA Bancorp Inc. (ESSA)	Stroudsburg, PA	First Star Bancorp Inc. (FSSB)	Bethlehem, PA	438.6	24.7	-1.16	49.25
12/20/11	Pending	Sandy Spring Bancorp Inc. (SASR)	Olney, MD	CommerceFirst Bancorp Inc. (CMFB)	Annapolis, MD	204.8	25.4	1.10	106.74
12/05/11	Pending	Beneficial Mutual Bncp (MHC) (BNCL)	Philadelphia, PA	SE Financial Corp. (SEFL)	Philadelphia, PA	306.9	32.5	NA	110.52
09/14/11	Pending	S&T Bancorp Inc. (STBA)	Indiana, PA	Mainline Bancorp Inc. (MNPA)	Ebensburg, PA	241.8	21.4	-0.01	125.88
08/16/11	Pending	Investors Bancorp Inc. (MHC) (ISBC)	Short Hills, NJ	BFS Bancorp MHC	Brooklyn, NY	469.9	10.3	NA	25.32
06/02/11	Pending	BankUnited Inc. (BKU)	Miami Lakes, FL	Herald National Bank (HNB)	New York, NY	501.1	70.0	NA	132.04
04/14/11	09/08/11	Investor group	Newark, NJ	Community FSB Hldg Co	Woodhaven, NY	52.2	NA <sup>1</sup>	NA	NA
04/04/11	10/14/11	BCB Bancorp Inc. (BCBP)	Bayonne, NJ	Allegiance Community Bank	South Orange, NJ	121.3	6.8	-0.24	97.16
02/15/11	08/01/11	Ocean Shore Holding Co. (OSHC)	Ocean City, NJ	CBHC Financialcorp Inc.	Egg Harbor City, NJ	136.0	11.9	1.57	130.00
02/08/11	05/27/11	Bridge Bancorp Inc. (BDGE)	Bridgehampton, NY	Hamptons State Bank	Southampton, NY	67.5	6.3	4.38	136.18
02/04/11	08/06/11	GNB Financial Services Inc. (GNBF)	Gratz, PA	Herndon National Bank (HRDN)	Herndon, PA	30.5	8.3	0.28	100.74
01/31/11	04/19/11	Snyder Group	Kittanning, PA	NexTier Inc.	Butler, PA	566.4	NA <sup>2</sup>	NA	NA
01/21/11	Pending	Industrial and Commercial Bank	Beijing, China	Bank of East Asia (USA) NA	New York, NY	717.0	140.2	21.13	162.00
							<b>Median</b>	<b>0.69</b>	<b>110.52</b>
							<b>U.S. median<sup>3</sup></b>	<b>-0.02</b>	<b>99.70</b>

Data as of Jan. 5, 2012  
<sup>1</sup> The terms of the deal were not disclosed.  
<sup>2</sup> Buyers contributed \$18.5 million in capital to the bank, which would not be included in SNL's calculated deal value.  
<sup>3</sup> U.S. median calculated using whole pending/completed mergers and acquisitions announced since Jan. 1, 2011, where the target had less than \$1 billion in assets and was based in a U.S. region outside of the mid-Atlantic.  
 Assets and deal pricing data are as of announcement.  
 Source: SNL Financial

Observers noted that there were several reasons for the pickup in smaller deals, including stabilizing credit and easing seller expectations.

Dennis Gibney, a managing director at FinPro, said the Northeast portion of the country has seen more stability in credit. That has made it easier for buyers to determine what the mark on an acquisition should be, though buyers and potential sellers can still disagree. "If we went back two years it was, you're catching a falling knife, and it was very difficult to put a true number to it," he said.

In western Pennsylvania, where [S&T Bancorp Inc.](#) is acquiring [Ebensburg, Pa.-based Mainline Bancorp Inc.](#), companies have seen less credit deterioration than other markets, said Austin Associates managing director and principal Richard Maroney Jr. Pennsylvania has several potential buyers with strong currencies, he said, which is beneficial for companies looking to sell. "There are certainly parts of the Midwest in particular, where we do a lot of our business, where there aren't very many buyers for a \$250 million bank because all the buyers have their own asset quality issues," he said.

Stronger credit also makes for more attractive targets. Maroney, who worked with Mainline on the transaction, said that while Mainline did not have strong profitability, it also lacked significant asset quality issues.

Expectations have become more reasonable in the Northeast, at least among some sellers. At smaller institutions, the realization is dawning that the new environment will be difficult for banks that lack scale. Spread and margin compression, along with higher noninterest expenses and "lingering credit costs" will make it more difficult for smaller companies to succeed in the new environment, Gibney said. Many companies may hold out until they can receive a higher price, but that depends on the circumstances of each bank. "If they're facing an awful lot of regulatory pressure, obviously they're going to be more motivated and they're going to have to re-evaluate their price expectation," he said.

David Danielson, president of Danielson Associates, added that another reason for small banks to sell is that it creates liquidity for the seller's shareholders. "Even though the deals are smaller, it does create liquidity for the sellers that they didn't have before," he said. Danielson Associates is a division of Ambassador Financial Group, which advised ESSA Bancorp on its sale.

Smaller institutions are also easier to plug into existing footprints, as buyers have sought to improve their franchise. Danielson said the primary goal for many recent buyers has been to find an institution that expands the bank's geographic franchise, with cost savings and increasing scale the secondary consideration.

The bankers also said M&A activity is likely to continue to pick up in 2012. Maroney said Austin Associates' deal pipeline is stronger than it was a year ago. He believes that activity will increase in the next year, with some markets such as Pennsylvania leading the way. "Whether or not we get back to where we were at five, six years ago, where we had 250 to 300 transactions a year, we may not be quite there yet," he said.

Gibney said the single greatest factor for a pickup in merger activity is an improvement in buyer currencies. With valuations currently more focused on tangible book value than earnings, buyers are focused on the dilution that occurs in a deal, along with the earn-back period. "If an institution is trading almost solely on tangible book value, most deals are going to be somewhat dilutive to the acquirer's tangible book value, barring an FDIC-assisted deal, which you don't see a whole lot of in the Northeast," he said.