
WHERE WILL YOUR BANK FIT IN THE UPCOMING CONSOLIDATION TREND?

One thing's clear: Your board, not outside fearmongers, should call the shots

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Mergers and acquisitions coming to a bank near you!

The consolidation of the industry is picking up. I am not one of the conspiracy theorists that think the government is trying to put us all out of business or one of the big bank theorists who thinks that there will only be four or five large banks. Community banks have a good future, but there will be significant consolidation in the industry over the next four or five years. It is starting now.

Is the "right-sized" community bank a myth?

Your community bank may be one of the smaller institutions contemplating combining with another community bank. Or it may even be a larger bank, trying to find the ideal community bank size.

Many "fear mongers" in the community banking industry believe that small community banks will not be able to survive. I was in a meeting the other day when one of these fear mongers (who is also promoting mergers and acquisitions) indicated that to survive a community bank had to be "a billion dollars in assets."

My response: not so.

I was actually recently with a \$15 million bank with six employees. That community banker asked me if he was going to be able to survive. My response was that he would survive. His bank simply would not make as much money as it historically had.

What will push consolidation along?

Consolidation of the industry will be driven by a number of new factors, in addition to the traditional reasons for consolidation.

Traditional reasons include the presence of an older board; lack of a management; and the like.

However, a few new triggers, are also present. These include impaired banks, which are getting healthier, and boards that considered that their bank missed the last "window" for consolidation. (I cannot tell you how many bankers lately have told me they wish they had sold four years ago).

There will be a number of bankers who simply have had all the fun they can stand, as well.

In other words, the traditional reasons for consolidation have not changed in the last 15 years and remain in force. The current financial meltdown has brought some new triggers.

Which side of the menu is your bank heading for?

The bottom line is that the industry will experience some consolidation. It is likely that the industry will consist of 5,500 or so banks at the end of 10 years or so.

But let's put the crystal ball aside, and look closer to home.

The question is, does your bank want to participate?

If you are a "have," i.e. a "good" bank, then the banks that are ready to make a change will provide a good opportunity for you.

If you are a "have not," i.e., an impaired bank, it is still going to be difficult to find a buyer.

If you are somewhere in between the two, i.e. a bank that is not doing too badly, but is not perfect, then there are probably buyers out there for you if you want to partner with somebody.

Strategically, it seems to me that your board needs to decide what the future holds and what they want to look like when they grow up.

A realistic view on price tags

As a practical matter, acquisition pricing is as low as it has been in years, and that drives my next points:

If you do not need to sell right now, you probably should not. Pricing may not come back, but it is kind of like real estate: Can it go any lower?

If you do decide to sell, then the board needs to make an informed judgment, use an appropriate process, get decent professional help, and go ahead and make the decision to move forward with a transaction regarding partnering up with another bank (euphuism for sale) or an outright sale.

Notwithstanding what appears to be the coming merger and acquisition wave, there will still be a good place for community banks of all sizes.

Will it be difficult to make as much money as the bank once did? Of course.

Will there be a place for the community bank in the future? Of course.

Community banks' strengths of small business and agricultural lending and high quality/high touch service will continue.

Do not have your bank participate in the consolidation out of fear. If you are going to participate, participate as a result of a strategic initiative.

About the Author

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