
NESSIE, BIGFOOT & MERGERS OF EQUALS: HANDLING M&A'S 'SOCIAL SIDE'

Sometimes the financial side is easier

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The merger and acquisition wave is rolling onto shore. Not a tsunami, just a wave.

A telling show of hands

Last week I had the opportunity to visit with a large number of bankers with respect to figuring out not only what they wanted to do in the mergers and acquisitions arena, but how to do it.

At the beginning of the discussion, I asked the group of bankers how many of them were buyers. Approximately half raised their hand. When I asked how many were sellers, no one raised their hands.

When I asked the third question of, "How many of you are here simply to learn about the process," about half the hands went up. As we went through the couple of days, it was clear those there to "learn about the process" were going to be sellers.

More interestingly, the sellers' motivations were varied.

Some of them were the same motivations for sale of a community bank that I have experienced historically during previous waves of mergers and acquisitions and consolidation in the industry. These include an older board of directors with no succession plan in place; lack of management succession; lack of ownership transition for a closely-held institution; lack of the ability to grow the company and grow profit; a middling existence in stagnant markets; and the like.

There were also some new motivations for some of these potential sellers, including the fact that many of them "had had all the fun they could stand" over the last three years, were now coming out of the trough, had survived, realized that prices were rising over what they had been, and wanted to "get out while the getting's good" and not miss the "window."

Nessie, Bigfoot, and mergers of equals

I do not believe we will see a consolidation of the industry down to the ten largest banks. But I do think we will see a fair amount of merger and acquisition activity between community banks.

Many of the community banks that have been calling lately have been discussing the possibility of putting their institution together with another like-size community bank in something often referred to as a "merger of equals."

As I like to say, a merger of equals is something akin to the Loch Ness Monster and Bigfoot, i.e. a lot of people talk about it, but no one has actually seen one.

In fact, these days, under the accounting requirements for community bank mergers (FAS 141R), one institution must be designated the purchaser.

Social side of mergers can eclipse financial challenges

In attempting to structure mergers of equals, the social issues which are always difficult in acquisitions-i.e., who is going to run the resulting company, who is going to be on the board, where is the world headquarters is going to be located, whose name is going to survive, whose charter is going to survive-are even more pronounced when you are putting two like-size, like-minded banks together.

In connection with a merger of equals, or any community bank combination, for that matter, my general recommendation is that because the social issues, i.e., nonfinancial issues, are so prominent, that the social issues should be addressed up front.

If the parties cannot get past the social issues, then there is no need to get to the financial issues.

I recall several times over the last 20 years where I have been asked to mediate a discussion of as many as four potential merger of equal partners with respect to the social issues. Once you get past the social issues, the issue of how much of the resulting company each of the respective shareholder groups will own is much easier to address.

Because the merger and acquisition issues are bubbling to the forefront, look for a series of blogs related to this topic.

Has your organization had to solve merger "social issues"? Tell us about the experience-and the solutions.

About the Author

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