

What is in the best long-term interest of the institution's shareholders?

The dance begins...

There are a lot of transactions being discussed, with some getting under contract, or at least Letters of Intent or Term Sheets these days.

The reasons for the transactions fit into a number of categories.

- • Some banks are deciding to combine for all the traditional reasons, i.e., lack of management succession, lack of board succession and the like.

- • Some banks are deciding to combine because they are convinced they need critical mass or because they are unhealthy and need to combine for survival.

- • Some banks are looking for a partner simply because they have had "all the fun they can stand" in this environment.

Due diligence can work two ways

No matter what type of transaction it is, significant due diligence will be involved. As most of you are aware, due diligence is simply a process that is engaged in to determine whether the target's assets and liabilities are as represented in their public filings. It may also involve a due diligence of the buyer, if the target's shareholders are taking buyer's stock for all or part of the transaction.

As in community banking in general, most of the risk in a target is represented by its loan portfolio.

Where to begin? A good place to start is with a look at loan review conducted by an outside party. This can give the buyer some feel for the credit quality of the target. It should not by any means be the end point, however.

The difference between a loan review, where some outside third party comes in and reviews the assets, and a due diligence review is that as a result of a due diligence, if the deal goes forward, the acquiring bank obtains those assets. It is not some speculative, "Gee, maybe there is some loss here" matter—once your bank signs, it is your bank's loss. Due diligence review will normally be more in-depth and critical than an outside loan review, so keep that in mind.

There are also about 15 other areas that are critical in a due diligence review, including tax issues, outside contracts, employment and human resource issues, and more. I will cover many of those in a subsequent blog.

About the Author

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