

Failed-Bank Deals Losing Their Allure in California

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By [Rachel Witkowski](#)

Two recent deals in Southern California serve as a billboard announcing that the mergers and acquisitions market there is shifting to open-bank deals.

One reason for the shift is that competition to buy failed banks has driven up their prices.

When bidding for seized institutions, "you compete with a lot of people and you spend a lot of money on due diligence with no assurance that you will get the bank," said Alex Cappello, chairman and chief executive of Cappello Capital Corp., an investment bank in Santa Monica, Calif.

An influx of equity to the market — despite the Golden State's high unemployment rate, budget crisis and depressed real estate market — also played a big part in California General Bank's deal to acquire Professional Business Bank in Pasadena and Los Angeles' Grandpoint Capital Inc. agreeing to buy First Commerce Bancorp in Encino.

The deals, both announced this month, "were not driven by the [acquirers'] asset size. It was driven by the capital base and the availability of additional capital from the source," said Rick Levenson, president of Western Financial Corp., an investment bank in San Diego.

Two deals may not sound like a lot, but they represented the most open-bank activity in a single month in the state since December 2009, according to SNL Financial LC.

Both deals would have drawn attention even in normal times because the buyers were much smaller by assets than the acquired banks.

"Just the fact that it got done in this environment is remarkable," said Tim O'Brien, a research analyst at Sandler O'Neill & Partners LP in San Francisco.

In each case, the buyer is using a capital infusion from its parent's equity fund to support the growth spurt.

The \$59.7 million-asset California General Bank's deal for its hometown competitor Professional Business Bank is saving the target from a cease-and-desist order, among other struggles.

Hardly two years old, California General was less than a quarter the size of Professional Business Bank, with \$304.9 million in assets. But its parent company's sole shareholder, a private-equity fund called Carpenter Community BancFund, injected more capital into the deal.

"Banks of this size don't have enough capital to do a deal like that" on their own, said Brett Rabatin, a bank analyst at Sterne Agee in Birmingham, Ala.

Professional Business Bank's president and CEO, Mary Lynn Lenz, said she spent the past 16 months approaching 57 different investor groups before she landed California General as a merger partner.

But that was only after Professional Business Bank was recapitalized by its parent's fund, Belvedere Capital Fund II LP, in May, which made Belvedere the bank's majority owner.

"A lot of stars had to be aligned to make this happen," Lenz said.

O'Brien said California General's willingness to make the deal would embolden other buyers for struggling open banks.

"Such a deal is noteworthy in that it can stimulate more non-FDIC-assisted transactions," he said.

While analysts said First Commerce was not as distressed as Professional Business Bank, its deal with Grandpoint was another bullish sign for California, its problems notwithstanding.

"We have heard a couple banks indicate more willingness to look at [California banks], but selectively," Rabatin said.

California has been viewed as a state with fewer strong banks and fewer large ones, making it less attractive for out-of-state buyers looking to build a sizable operation, he said.

Since July 2009, only nine open-bank deals were publicly announced that involved a seller from California, according to data from SNL. Four of those were announced this year, which included the two deals announced in July.

Meanwhile, M&A activity began perking up nationwide as a handful of open-bank deals were announced in the Southeast, Northeast and Pacific Northwest this month. Rabatin said the M&A announcements in the northern states in particular involved banks that were well capitalized and generally had better asset quality.

Others, however, argue that California banks' potential is being underestimated while buyouts are low.

"California's death has been greatly exaggerated," Cappello said. "When this market turns around, California will be one of the most exciting markets to be in."

His firm helped Hanmi Financial complete a \$140 million common stock and rights offering this week. The bank raised more than the \$100 million regulators had ordered it to raise by the end of July.

At least in the near term, most open-bank deals will also likely require an additional capital injection.

Grandpoint Capital, which raised nearly \$350 million last year, used \$75 million of that as capital to acquire the \$25 million-asset Santa Ana Business Bank in June, which will then be used as a vehicle to acquire the \$335.6 million-asset First Commerce Bank.

Grandpoint's chairman and CEO, Don Griffith, said that while equity is coming into the state, largely to make FDIC-assisted deals, he believes new money will shift more to open-bank deals.

"I think the money will always gravitate toward talented managers and good business plans," he said.

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