Western Independent Bankers Directors Digest

A Community Bank Director Advisor Issue #32 - February 2010

Growing Your Footprint in Today's Favorable Branch Acquisition Market

A proactive, objective approach to assessing potential opportunities

By Steve Cotton, Bank Intelligence from Fiserv

The implications of the current environment are clear – branch supply and demand has created unprecedented opportunities for acquirers. If your institution is in a position of fiscal strength, now may be the ideal time to grow its footprint at a lesser cost. As a director you can play an integral role in helping the bank identify potential opportunities for augmenting franchise value through acquisition. Here's what you need to know to guide the bank is assessing prospective branches.

Why Now's a Good Time – Pricing

Before delving into the how, let's quickly look at the factors that are defining acquisition pricing today – branch supply and demand. The supply of branches for potential sale is likely to increase as larger institutions continue to exit weak or saturated markets. As consolidation continues through whole bank merger or acquisition, other branches will add to supply due to location redundancy of the combining institutions. Failed institutions in receivership are also rapidly increasing the supply of available branches.

Conversely, capital constraints have materially lessened the volume of potential acquirers; even those with relative capacity are reticent to move decisively in today's uncertain environment. Increasing supply and waning demand will always create decreased pricing. This presents an opportunity for those bold enough to move with certainty. However, pricing is not the only variable influencing transaction success. Your bank can further increase the odds of a success by proactively developing a focused acquisition strategy, versus waiting to react to emerging opportunities.

Develop an Expansion Strategy

Conduct a strategic situation audit – You're not trying to find a good acquisition for any bank, rather you're trying to find the best opportunity for your bank. The key is to "know thyself" by conducting a situation audit of the institution's strengths and weaknesses both from a profitability and a footprint perspective.

Define primary growth objectives – What is the bank looking to accomplish? The answer, which is fundamental to evaluating whether any acquisition will enhance franchise value, should have emerged from the strategic situation audit. Utilize this foundation to define the bank's primary growth objectives. Are you seeking to fill an existing footprint or expand into tangential markets? Is the focus more on consumer or commercial development, or both? Is your desire to acquire a branch driven by a need for funding?

Set the guiding principles – Having set the bank's primary growth objectives, next establish guiding principles that further isolate the best acquisition candidates for your institution. Through a "segmentation append" process, the situation audit might reveal that the institution resonates with a particular client segment as it has a disproportionate share of that segment in its legacy footprint. What could be more valuable than knowing who responds to your message? The bank could utilize that insight to identify potential locations with a disproportionately large base of that segment. Wouldn't this heighten the value of that location for the institution versus others?

Another essential principle is the competitive landscape – wouldn't the bank like to choose its competitors? If your offering differentiates well from national or regional institutions it is to your advantage to acquire a branch that competes with them in a particular market.

Proactive candidate identification – As a next step, develop an exclusive query to identify candidates possessing the desired characteristics. The objective is not to wait on opportunities to emerge, but anticipate by already knowing which opportunities it would pursue with vigor. Could you anticipate failed bank receivership opportunities? By screening within desired markets for institutions with the right footprint characteristics and high levels of loan loss exposure, you might identify which opportunities could emerge that are a great fit for the institution. The query could include criteria such as competition type, saturation, projected growth, consumer product demand, commercial niches like medical professionals, or others.

Being Proactive will Pay Off

In the end, an acquisition only makes sense if it addresses the bank's weaknesses or enhances its strengths. Your institution can determine whether it will be better off by comparing the growth potential of the current footprint to that of the pro forma footprint. Through advance scouting, your institution can proactively identify expansion opportunities instead of simply reacting to unsolicited offers. Anticipate and your bank will be in a position to exploit today's favorable acquisition environment.

<back to February 2010 Directors Digest>

Steve Cotton is president of Bank Intelligence from Fiserv. He can be reached at steve.cotton@fiserv.com.