



Up-to-Date: The Bank M&A Market State of Affairs -- Fall, 2006
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The U.S. economy and banking system have enjoyed more than half a decade of improving strength and prosperity in which U.S. banks have become better capitalized and more profitable than they have been in generations. Moreover, in the past 24 months not a single insured bank has failed, and the Bank Insurance Fund is now capitalized at a level requiring most banks to pay only nominal fees for their insurance.

A recent bank CEO survey on mergers and acquisitions conducted by the public accounting firm of Ernest and Young found that unrealistic price expectations were cited by 68% of the banking executives as the most significant impediment to making an acquisition, followed by 11% reporting transaction risk and 7% regulatory changes. Heightened focus on corporate governance was noted as a deal impediment by 5% of respondents. When asked about their Board of Directors' involvement in M&A transactions, respondents said that their boards review and approve:

- Corporate strategy (91% agreed; 9% disagreed).
- Alignment of transaction strategy to business imperatives (62% agreed; 38% disagreed).
- Deal pipeline/watch list (51% agreed; 49% disagreed).
- Opportunity identification criteria (58% agreed; 42% disagreed).
- Opportunity business case/value proposition (77% agreed; 23% disagreed).
- Opportunity deal structure (80% agreed; 20% disagreed).
- Opportunity integration plan, pre-closing (54% agreed; 46% disagreed).

One only has to look at the mega-mergers and regional mergers of the last two years to understand the trueness of the old axiom that every bank is for sale for the right price. While the aggregate value of transactions over the past two years is unprecedented -- over \$250 billion --the number of deals on an annualized basis has been consistent in each of the last five years. This suggests consolidation is occurring as part of a steady, long-term trend, which one can date back to the lifting of interstate barriers in 1985.

Despite bank consolidation, the U.S. still has more than twice as many banks per capita as the average of other industrialized nations. Further, the banking industry reported a fifth consecutive year of record earnings in 2005, and this strong financial performance has continued well into 2006. We at Bank Brokers anticipate this bank acquisition and de novo activity continuing into the foreseeable future.

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