VERIBANC

Beyond ‘CAMELS’

400 Community Banks – Here Today, Gone Tomorrow.

With increasing regulatory burden, historical low yields, and uncertainty in the economy, many community banks are looking for a way out.

Recent merger and acquisition (M&A) activity indicates that modestly sized banks’ values are depressed and that only those with strong balance sheets and solid earnings can successfully negotiate traditional pricing levels.

Management response at many banks has been portfolio purge. Some 400 banks slashed their problem assets for the quarter ending June 30, 2012.

VERIBANC has analyzed all 423 Federally-insured banks that have significant portions of their capital tied up in bad loans. In particular, we studied those with non-performing assets* that amounted to between 20 and 40 percent of an optimistic estimate of their capital** (NPA2EE) Interestingly, this second quarter analysis shows no bank in the study group to be $1 billion or more in assets. The actual distribution follows.

No. of Banks	Asset Range
85	< $100M
206	>= $100M to < $300M
100	>= $300M to < $700M
32	>= $700M to < $1B

(M – millions, B - billions)

Between bargain hunting buyers snapping these gems up and aggressive bank managers turning their institutions around, these banks are disappearing rapidly.

Comparing the quarter ending June 30, 2012 with the quarter ending September 30, 2011 the under $100 million group decreased its NPA2EE by 47% and the $100 to $300 million group decreased by 46 %. Diminishment of the larger sized bank groups was also substantial with the $300 to $700 million group declining by 35% and the $700 million to less than $1 billion group declining by 30%. With the smaller community banks cleaning up their balance sheets and positioning themselves for uncertain times ahead, the data suggest that larger community banks are increasingly following suit. As many seek to minimize ever increasing regulatory expenses by considering a near-term M&A strategy, they are faced with a limited pool of low hanging fruit – banks with assets less than $300 million.

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At the current pace of approximately 50 mergers and acquisitions per quarter, the best deals highlighted in our study cohort (those with a NPA2EE under 25 percent) will be gone four quarters from now.

For a list of these banks in your state, please contact VERIBANC either by email: service@veribanc.com or toll free at: 800-837-4226.

* - non-performing assets = loans 90 days or more past due and nonaccrual loans less government guarantees
** - optimistic estimate of capital = equity plus the loan loss reserve
NPA2EE = non-performing assets divided by enhanced equity (equity plus the loan loss reserve)