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Jef U Expert Call Transcript: Bank M&A Outlook - Winds of Change

GUEST SPEAKER
Gary Bronstein | Partner, Kilpatrick TownsendFinancial Services Team Leader

HOSTED BY
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We hosted a call with Gary Bronstein of Kilpatrick Townsend's Financial Services team to discuss the outlook for bank consolidation. With macro uncertainty and market volatility, conditions for bank M&A are more challenging. Timing delays in large deal closings are notable, given increased regulatory scrutiny, with regulators incrementally focused on fair lending/consumer protection and financial stability. See call transcript inside.

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M&A backdrop more challenging given macro uncertainty and stock market volatility. Between inflation, supply chain disruptions, and the war in Ukraine, the swing in the macro environment adds a new wrinkle for buyers and sellers. As far as deal consideration is concerned, rising rates and related negative hits to AOCI (due to unrealized markdowns of banks' securities portfolios) can also have implications for deal pricing given the impact on accounting marks and price/book multiples.

Larger deals under increased scrutiny, leading to deal close pushouts (see USB-MUFG). Generally speaking, the group of large deals ann'd. over the past few years consist of fairly straightforward transactions that would seemingly not run afoul of typical approval requirements. That said, banking regulators have placed an increased emphasis on reviewing banks' efforts to serve disadvantaged communities following prospective M&A transactions, with cost save-motivated branch closures potentially perceived as running counter to such. Banks that have outstanding enforcement actions related to consumer protection/compliance are also likely to be placed in the penalty box until issues are resolved.

Financial stability/systematic risk considerations have also been brought to the forefront. A joint statement from the FDIC/CFPB last December, related to reform of the Bank Merger Act, softly circled $100B of assets as a potential line in the sand for closer examination, despite capital levels at these banks being much higher in the post Dodd-Frank era. Smaller bank deals should continue to face less scrutiny, but there could be trickle-down effects. As an example, an increasing amount of smaller bank sellers are obtaining some form of insurance, whether it be the right to a reverse termination fee or a price adjustment clause in the event of a delay (though the latter can be tough for buyers to get comfortable with in the current market backdrop).

Bronstein does not see the regulatory backdrop/M&A approval process being significantly altered by upcoming midterms. While seats on the various committees may change in D.C., these changes are unlikely to significantly alter agendas at the regulatory bodies. While it is hard to say if scrutiny will become even more intense, Bronstein does not see any easing and thinks there will be an increasing number of deal-related hearings going forward (as held for USB/MUFG and upcoming for TD/FHN and BMO/BancWest. We note that recent earnings calls for TD and BMO both noted progress in line with their respective expectations. Finally, while the July '21 executive order from the White House has yet to fully transpire, outcomes are likely to similarly focus on fairness, stability, and underserved communities.

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