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Buying and Selling a Bank: How to Get the Best Price

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Whether you are looking to buy a bank or thinking about selling, there are some considerations to keep in mind in order to accomplish your goal—get the best price. This brief guidance is for buyers hoping not to overpay for a bank, as well as for sellers trying to sell their bank for the highest price.

BUYERS: NEGOTIATING THE LOWEST PRICE

Before making an offer, hire a team of professionals. Especially if you are a first-time buyer, accountants and lawyers with experience in bank acquisitions can help you navigate the issues you might not otherwise foresee. The right team will have extensive experience in comparing prices and valuing assets and can give you assurance that you are getting a good deal on your investment. Your team of professionals will be well known by bank regulators and will quickly prepare and file your regulatory applications.

Think Strategically. Because you never know when a bank might be available, think ahead. What does your bank need to improve profitability? Is it a geographic issue? Are you in need of liquidity, an enhanced lending limit? Do you want to keep out the competition? All of these factors should be considered and a plan developed.

Take the Initiative. Don't be afraid to reach out to a bank you have an interest in—your competition might beat you to it. By being the first to act, you might be able to exclude other potential buyers who would otherwise be invited to participate in a bidding process.

Bite the Bullet. Buyer's remorse is rare. No one has ever regretted paying 1.7x book value rather than letting the bank go for 1.6.

Remember: banks are sold, not bought. Treat the seller fairly. Portraying an attitude that the seller is at your mercy because you are interested in buying will not help you. In fact, how well the parties get along and the manner in which the seller is treated can tip the scales in your favor. Sometimes price isn't the only consideration. Perceptions of the buyer and how you might treat the employees and community

after the closing can also play a part. You also do not want to show the seller how badly you want the bank as it gives them a position of control.

SELLERS: HOW TO GET THE BEST PRICE

Early and thorough preparation is essential. Review the bank's loans, operations, compliance, and governance. Know your numbers and what advantages you can offer a buyer. Also consider implementing change-in-control incentives (e.g., pay to stay bonuses) for key individuals to discourage them from seeking new employment throughout the sale process and to encourage them to be engaged in the transaction.

Hire a Team of Professionals. Just as buyers should hire an accountant and lawyer, sellers should hire a similar team.

Test the waters and get the timing right. Before putting your bank on the market, gauge the interest of potential buyers, consult your experts and gain information about the market. This will help you start with a realistic, unbiased valuation of your bank. Be realistic in the time it takes to sell a bank, and do it when you have time to wait for the best offer. Knowing you can walk away from a low offer greatly enhances your negotiating power.

Be Sure. Once word gets out that your bank is for sale, competitors will raid your customers and your staff. So be sure you want to sell, and once you pull the trigger, don't look back.

Put your best foot forward. Analyze your competition and tailor your sales pitch to their needs. If someone is looking for market share, promote your influence in the market. Does someone need liquidity? Trumpet your low loan-to-deposit ratio. You get the picture.

Synergies. What are the cost savings from combining the banks? Elimination of owner salaries, director fees, and maintenance fees, and consolidation of benefit plans are just a few of the benefits the buyer will garner.

TAKEAWAY

No matter which side of the transaction you are on, it is beneficial to be as prepared as possible and to have a strong team supporting you. Seeking advice from an accountant and a lawyer prior to negotiating an offer will give you knowledge and experience and ensure you get the best deal possible.