CONFERENCE CIRCUIT

Merger clock is ticking, with banks seeking to bolster deposits, analysts say

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By Harry Terris
Market Intelligence

The clock is ticking for banks seeking to merge under the deal-friendly Trump administration, with deposit portfolios a key driver amid higher interest rates, panelists said at an industry conference.

"There's a sense across the financial services industry that a lot of the regulation, enforcement, interpretation, or direction has sort of an on-the-clock feel, because if there's a shift in the next presidential election, you can see a dramatic change," Keefe Bruyette & Woods Inc. CEO Tom Michaud said at The Clearing House Annual Conference, held Nov. 17-18 in New York City.

After decades of consolidation among banks, merger activity in the industry is entering an "endgame," Michaud said, with about 130 banks with more than $10 billion in assets remaining in the country. "They're the endgame banks," he said.

Among the fundamental motives to merge, rising interest rates and the imperative for deposits are important forces, UBS analyst Erika Najarian said.

"The difficulty in deposit gathering drives a lot of the M&A conversation," Najarian said. "The two to three rate hikes priced in the curve, and if that actually manifests, those challenges of gathering deposits are going to be one of the conversation starters."

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"I'm a big believer that core deposits should determine how big your bank is," Michaud said. "And there are still, in the regional banking community, great market shares, great connectivity with the customers, and 100-plus year-old deposit bases that probably won't be recreated. And I think big banks see that and they view that as an opportunity to continue to get more scale themselves."

A number of industry participants believe that deal activity could be spurred by the potential for a shift away from easier and faster merger review by bank regulators under the Trump administration. A regulatory shift could also impact a recent wave of chartering activity.

By contrast, buyers such as PNC Financial Services Group Inc. and M&T Bank Corp. have said they believe they can get deals done regardless of who is president.

Scale advantages and superior valuations are also supporting acquisitions by big banks, Michaud said. "If you were to line up the banks by asset size and cohorts, generally, the bigger you are, the more profitable you are and the more highly valued your stock is."

Meanwhile, smaller banks are evaluating their prospects.

"Each bank has to figure it out for themselves, and understand what their opportunity set is. There's lots of technology coming that hopefully can assist many of these smaller banks in their journey," Michaud said. "But I can tell you, many bank management teams and boardrooms that I'm with, they're talking about this. And I think some of the combinations that have happened have said, maybe we're better off joining them than competing with them."

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