

IF, HOW, WHY AND FOR HOW MUCH?

BUYING OR SELLING A COMMUNITY BANK

**Sherwood G. Briggs
Managing Director**

**Chaffe & Associates, Inc.
220 Camp Street
New Orleans, Louisiana
Phone: 504-524-1801
Fax: 504-524-8765**

I INTRODUCTION

Banking has been considerably consolidated in recent years. The number of banks remaining is roughly half what it was as recently as 10 years ago. This has had profound implications for the financial structure of our country. Many predict, or even anticipate, the disappearance of community banking or even banking itself and its replacement by other forms of finance.

Exhibit I

Summary Statistics Bank and Thrift Deals

	<u>1997 Y</u>	<u>National</u> <u>1998 Y</u>	<u>1999Y</u>	<u>2000Y</u>	<u>2001Y</u>
Number of Deals	462	504	356	275	149
Bank	349	411	282	209	114
Thrift	113	93	74	66	35
Total Deal Value (\$M)	96,834.2	289,213.9	76,276.4	94,464.0	34,218.1
Bank	75,380.2	265,307.3	68,824.8	90,130.9	26,371.2
Thrift	21,454.0	23,906.6	7,451.6	4,333.1	7,846.9
Total Assets (\$M)	387,174	1,215,059	317,845	576,971	123,617
Bank	256,894	1,085,521	289,302	533,371	78,855
Thrift	130,280	129,537	28,542	43,599	44,761
		<u>Texas</u>			
Number of Deals	51	50	34	22	15
Total Deal Value (\$M)	892.1	1,283.7	1,144.3	2,131.4	333.8
Total Assets (\$000)	5,452,964	6,755,831	5,434,788	21,363,804	2,178,899

II The Beginning

- How do most bank sales begin?
 - 1) They receive a call from a would be acquirer
 - 2) One or two key shareholders push the idea
- What happens then?
 - 1) In both the above cases, the Board will hire a lawyer and, usually, a financial advisor.
 - 2) The Board will get financial advice and will proceed.

III There is a better way – Planning

- A Quick Summary of Strategic Planning
 - Objective - optimize shareholder value
 - Components:
 - An operational plan; a marketing plan; a financing plan; an acquisition plan
- Optimizing Shareholder Value -The Acquisition Plan
 - Major capital transactions should be part of any strategic plan
 - The “Dilemma of the (minority) Shareholder”

IV If?

Alternatives

- 1) Repurchase
 - Benefits and Drawbacks
- 2) Going Public
 - Benefits

Exhibit III

Studies Evidencing Marketability Discount

<u>Study Reference</u>	<u>Years Covered in Study</u>	<u>Average Discount</u>
1)	1) 1966-1969	25.80% (a) 32.60% (b)
2)	2) 1968-1970	30.00%
3)	3) 1968-1972	33.45% (c)
4)	4) 1969-1972	35.60%
5)	5) 1969-1973	35.43%
6)	6) 1978-1982	45.00% (c)
7)	7) 1981-1988	33.75%
8)	8) 1994-1995	45.00%
9)	9) 1975-1992	51.50%
10)	10) NA (d)	28% to 49%

(a) All companies

(b) Non-reporting OTC companies

(c) Median figure

(d) Example data based on April 1993

Exhibit IV

Texas

Deal:

Deal Price:
5 Day Premium

Buyer/Target

Announce Date

(%)

International Bancshares Corp./National Bancshares Corp.

07/31/2001

33.85

SouthTrust Corp./Bay Bancshares, Inc.

12/11/2000

20.09

BOK Financial Corp./CNBT Bancshares, Inc.

08/21/2000

7.18

Washington Mutual Inc./Bank United Corp.

08/21/2000

7.65

State National Bancshrs, Inc./Independent Bankshares, Inc.

03/01/2000

25.49

13.87

East Texas Financial Services/Gilmer Financial Services

11/17/1999

86.43

Wells Fargo & Co./Prime Bancshares, Inc.

07/29/1999

16.90

51.67

Southwest Bancorp of Texas/Fort Bend Holding Corp.

10/21/1998

17.57

National

Total No. of Transactions

Year

2001

61

35.55

2000

97

32.84

1999

98

30.15

1998

104

24.09

V SELLING THE BANK

● The Decision to Sell

Examples:

Going Public

- Dividends
- Appreciating market value

Vs.

Sell Bank

- Dividends (if sold for stock) or Interest income or cash
- Appreciating value of stock received or investment purchased with stock
- Control premium

Sub S

“Excess” dividends

Vs.

Sell Bank

- Dividends (if sold for stock) or Interest income or cash
- Appreciating value of stock received or investments purchased with cash
- Control premium

V SELLING THE BANK (Cont')

- The Process - Being "Pro Active"
 - Retain experienced attorneys
 - Retain a financial advisor
 - Work with advisor to select potential purchases
- When is a good time to sell?

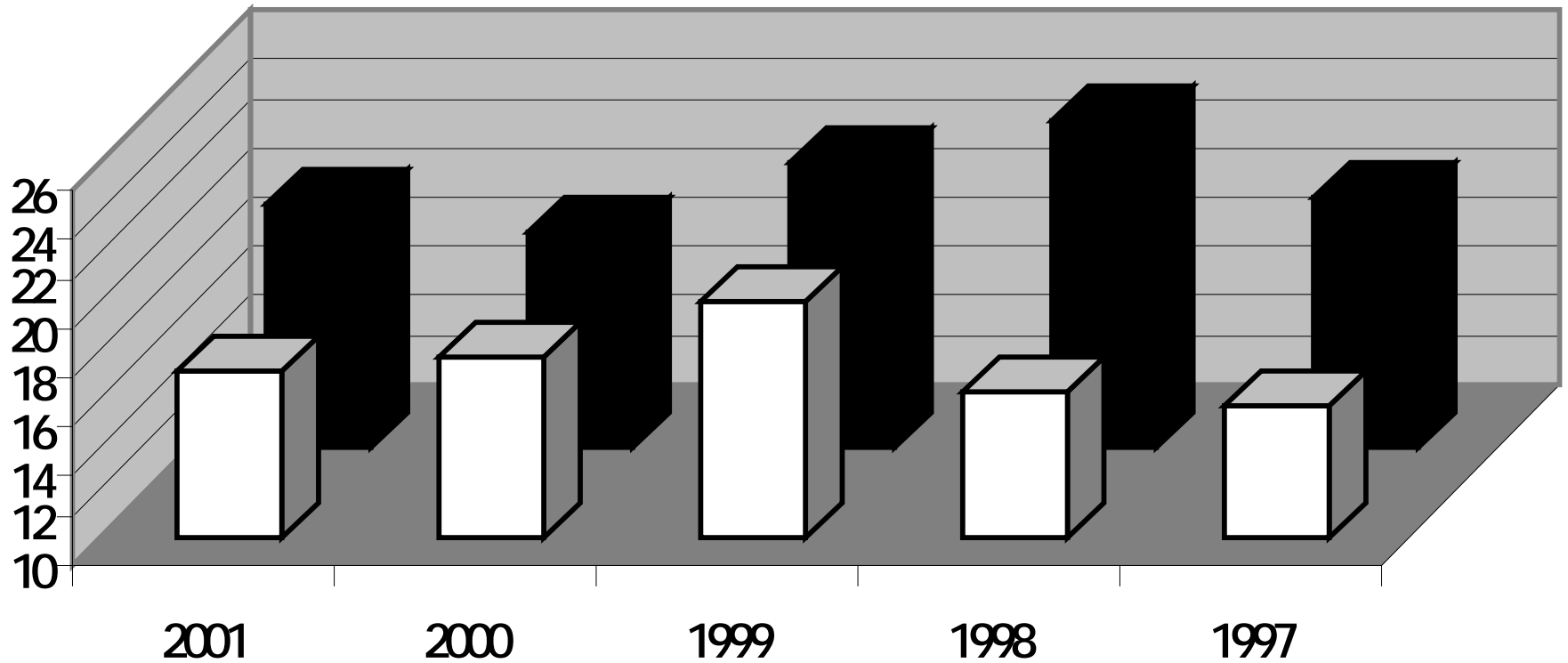
Exhibit V**Price Ratios for Transactions by Year
Bank and Thrift Deals****National**

	<u>1997 Y</u>	<u>1998 Y</u>	<u>1999Y</u>	<u>2000Y</u>	<u>2001Y</u>
Average Price/Book (%)	214.21	255.27	221.22	193.61	183.12
Bank	223.77	266.15	230.80	209.03	191.17
Thrift	184.32	209.77	184.25	142.49	158.71
Median Price/Earnings (x)	20.53	23.19	22.07	19.29	19.54
Bank	19.07	22.25	21.62	18.90	18.90
Thrift	26.15	27.35	24.01	19.98	28.46
Average Price/Assets (%)	20.07	24.42	21.27	17.74	17.65
Bank	20.68	25.01	21.33	18.26	17.86
Thrift	18.16	21.96	21.03	16.04	17.04

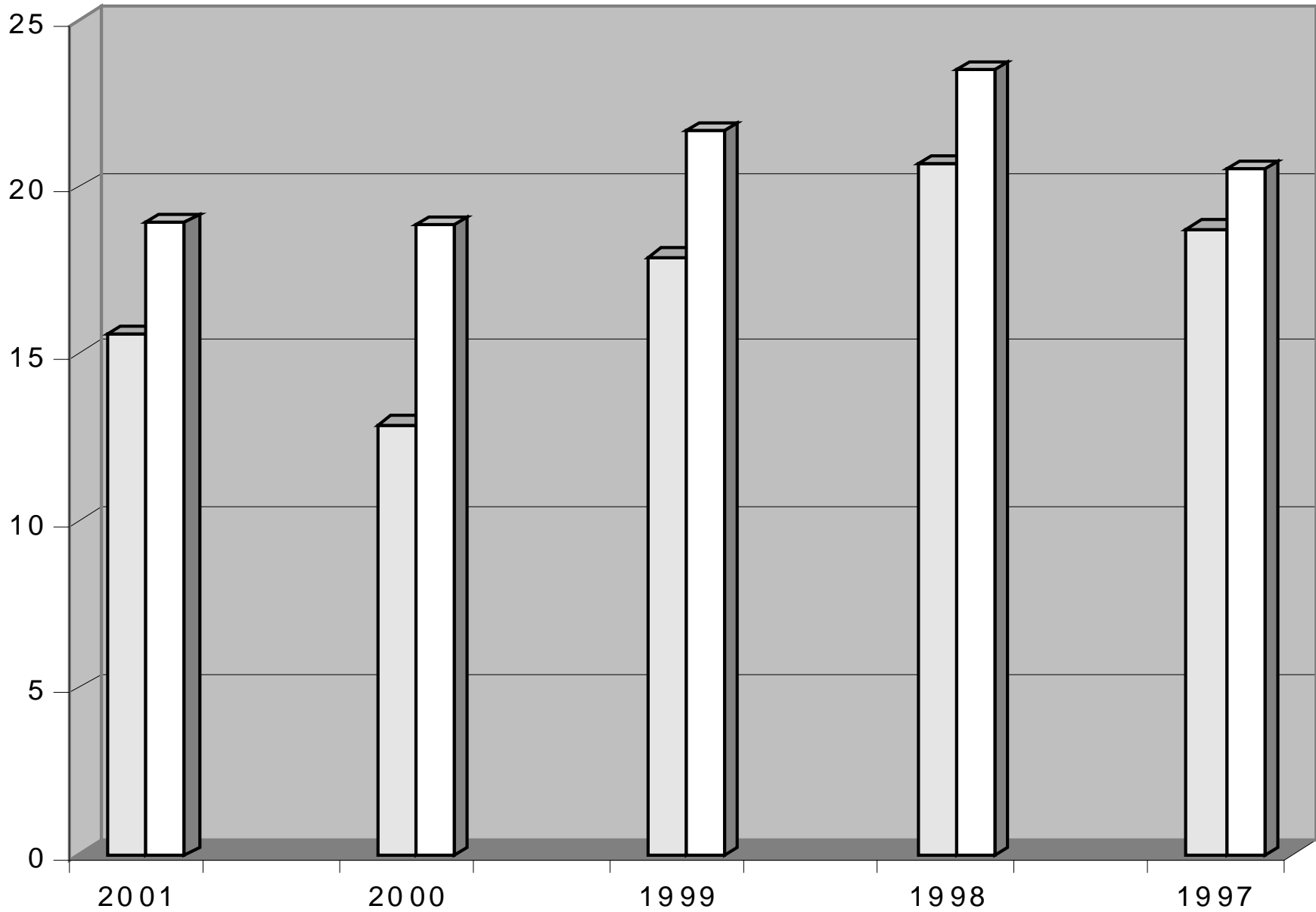
Texas

Average Price/Book (%)	206.72	239.14	227.22	241.38	202.32
Median Price/Earnings (x)	15.95	19.19	17.87	18.02	16.22
Average Price/Assets (%)	17.48	20.64	19.16	17.22	17.89

Purchase Price/Earnings



□ Cash ■ Common Stock

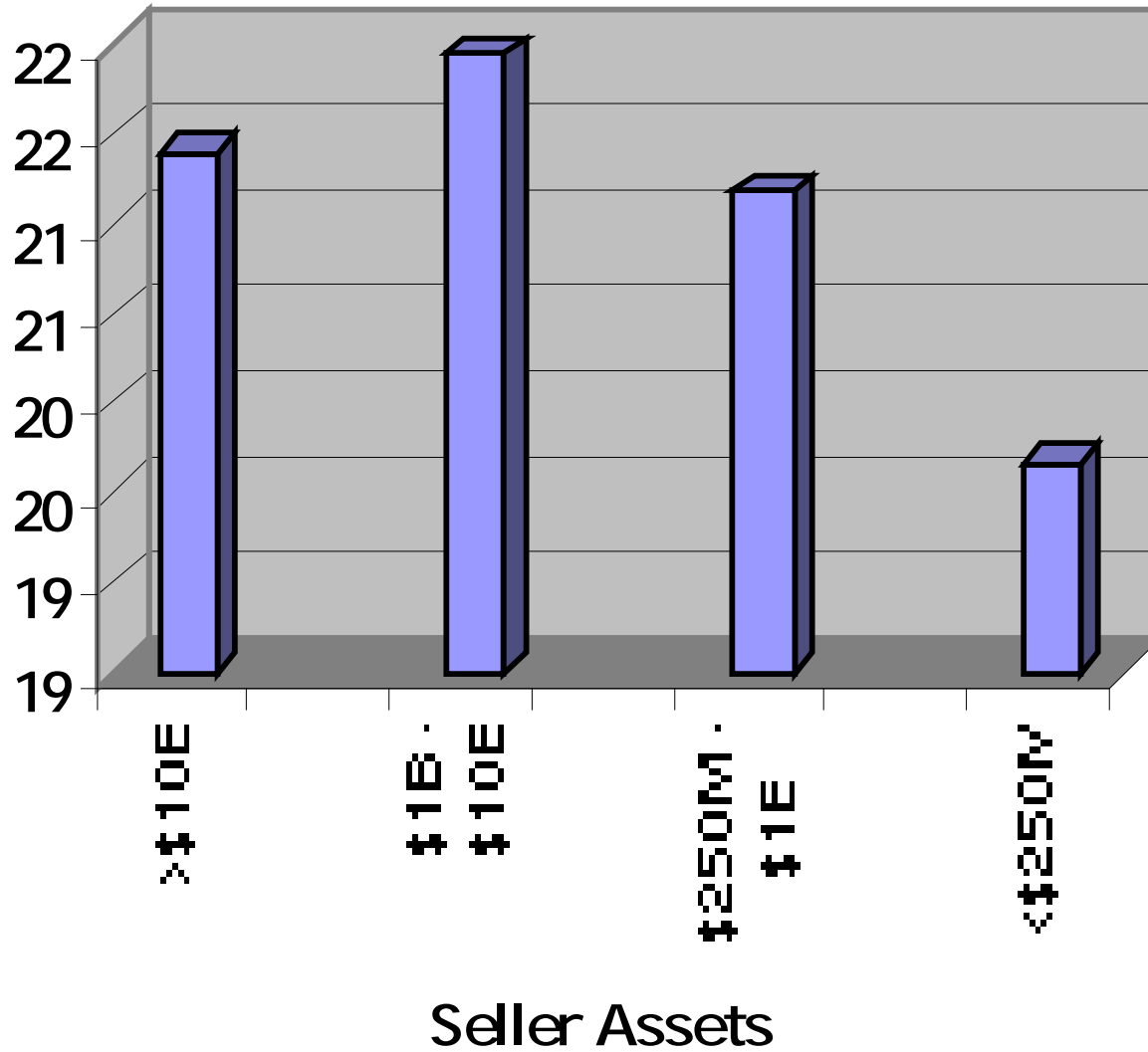


Buyer's Market P/E Purchase P/E

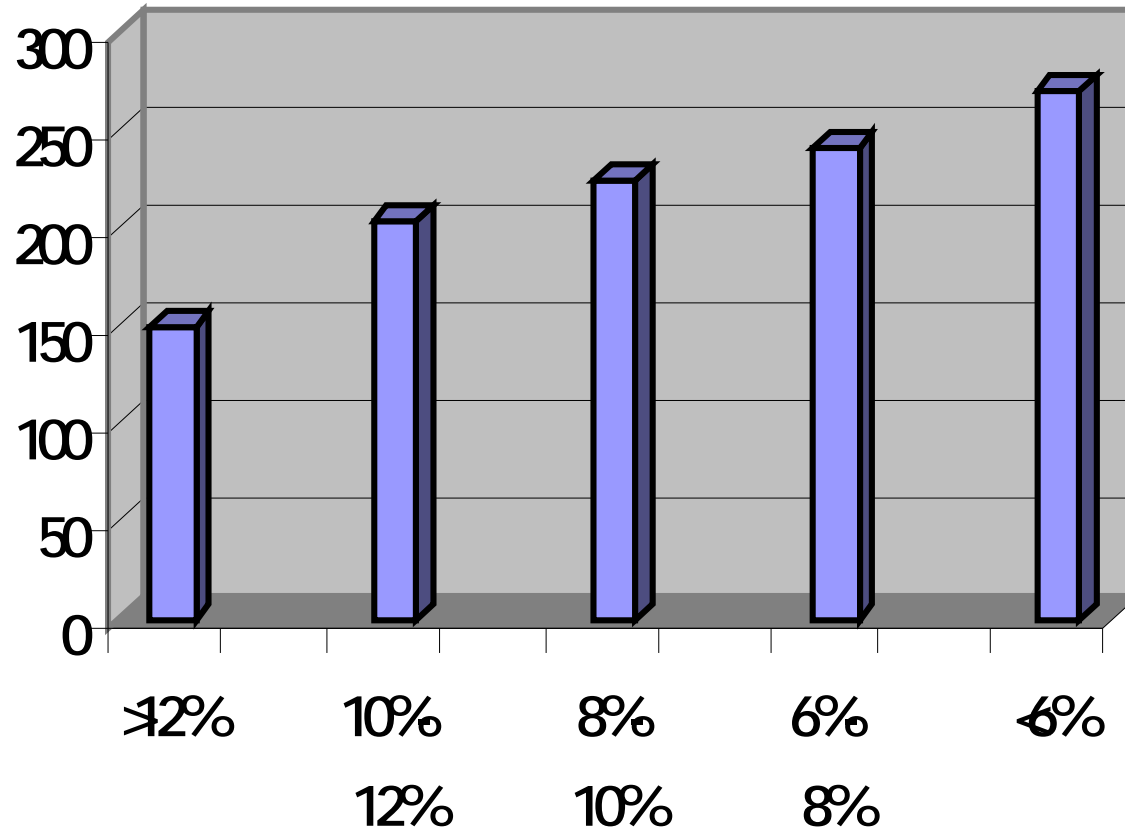
VI What makes a bank attractive?

- Rural vs. City vs. Suburb
- Growth/Earnings
- Don't be over capitalized
- Size
- Consistency

Purchase Price/Earnings



Purchase Price/Tang. Equity (%)



Seller Tang. Equity/Assets

VII Cash vs. Stock

- Pooling is out
- Deal Results - Cash deals are better for the acquirors
- The New Pooling Rules - Mandates periodic valuation of intangible assets - not periodic writedown

VIII Summing Up or “Grooming” the Bank

- If possible get the Bank to a good size.
- Extra equity is useless - use it for buybacks or expansion.
- If rural, try to build up a suburban presence. If big enough, build a presence in other more attractive areas.
- Above all, make the sale part of a plan.