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# Deposit relationships growing as M&A driver

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By Ken McCarthy

Rising interest rates are pushing up deposit costs in the U.S. banking industry, and as a result some acquisitive banks are increasingly focused on finding low-cost deposits through M&A and hanging on to those depositor relationships.

After more than a year of Federal Reserve policymakers periodically lifting rates, the total cost of funds for the U.S. banking industry rose to 0.75% in the second quarter from 0.48% a year earlier, according to a recent S&P Global Market Intelligence analysis.

Banks with relatively strong core deposit bases - long-standing customer relationships that are not based primarily on rates - tend to have low funding costs. They have become especially attractive M&A targets as deposit costs for the industry climb.

**Matt Kennedy, Vice President at investment bank Banks Street Partners, said in an interview that a strong deposit base has moved up acquirer wish lists of late. He said lower funding costs attract more potential buyers and thus drives deal prices higher. "The conversations when we talk to these acquirers have centered and focused on deposits and the deposit base more over the past two or three quarters than they did previously," he said.**

**Buyers are also increasingly seeking targets with lower loan-to-deposit ratios, Kennedy said, as acquirers want to take that deposit base and use it as a funding source for future loan growth.**

Deposit acquisition could also be a motivating factor in deals involving credit unions buying banks. The U.S. has already seen seven such deals announced in 2018, most recently IBM Southeast Employees' CU's acquisition of Vero Beach, Fla.-based Oculina Bank.

Michael Bell, a lawyer with Howard & Howard Attorneys who has advised on many such deals, told S&P Global Market Intelligence that liquidity is often a major factor with those credit union acquirers. "Most of my buyers have loan-to-deposit ratios in excess of 95%, so it's a major driver," he said.

### Banking on relationships

In some cases, buyers are focusing on the relationships behind the loans they acquire. They say bankers who have developed business relationships with the customers behind those deposits are key to maintaining a target's funding after a deal closes, and so they are working aggressively to bring key executives and other prized staffers from the seller to the combined company.

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Wilmington, Del.-based WSFS Financial Corp for example, billed its planned buyout of Philadelphia-based Beneficial Bancorp Inc. partly as a talent acquisition. Executives said they were drawn to Philadelphia in part because it is flush with thousands of businesses that tend to be sources of core deposits, and Beneficial bankers would play important roles in maintaining and strengthening ties to commercial clients in the market.

Greater Philadelphia "has a population of over 6 million consumers, has well over 200,000 businesses, is rich in core, low-cost, sticky deposits and a continuous pipeline of high-quality talent," WSFS Chairman, President and CEO Mark Turner said on a call to discuss the deal.

Dallas-based Veritex Holdings Inc said its planned acquisition of Houston-based Green Bancorp Inc would bolster its presence in Texas' largest market and help it roughly double in size, gaining economies of scale. Veritex expects the deal to bolster core deposits and add bankers who should help the combined bank hold onto that funding, executives said.

Green Bancorp CFO Terry Earley, who will become CFO of the combined company, said during the call that executives on both sides of the deal are in agreement that core deposit relationships are vital to maintain.

"You're going to see us be aggressive, as aggressive as we need to be to protect relationships," Earley added. "We know we've got to hang onto people."