

Matchmaking And Online Bank Dating

by [Steve Brown](#)

You might be familiar with the song "Matchmaker," a well-known number from the long-running hit musical Fiddler on the Roof. The story focuses on Tevye, the father of five daughters, and his efforts to maintain his family and Jewish religious observance in Russia a few years after the turn of the century. The song itself is about Tevye's daughters yearning for the perfect match and it speaks to how nuptials were typically arranged back then. Nowadays, matchmaking has taken a different twist with reams of online dating sites such as matchmaker.com and eHarmony.com.

Given all the stresses in banking these days, M&A matchmaking is also a common theme. Consider a recent study by Invictus Consulting Group on banks and the 2014 M&A market. The New York firm ran its own stress tests on U.S. banks and determined that while banks have made notable strides since a 2012 analysis, shareholders of about 50% of the country's banks would be better off if their bank took on some sort of M&A activity.

According to the report, there are 828 banks that must sell due to low capital levels and poor earnings power. There are another 573 banks that should consider selling due to lackluster asset portfolios. On the other side of this coin, the analysis found 815 banks need to be buyers because of their less-than-robust earnings power within their existing asset portfolios and yet another 1,110 banks should also buy. Finally, the analysis found 3,395 banks (about 50% of the community banks in the U.S.) were already well-positioned for the future without the need to buy or sell. Of note, 28 banks are flagged as outliers, with a combination of strong earnings and weak capital levels - making them promising acquisition targets.

You probably know from your financials which category your bank falls into using such an analysis. So, if you're one of the well-positioned banks, we applaud your efforts and say keep up the good work. On the other hand, if you're a bank looking for an exit strategy, or you're looking to beef up through acquisition, there are many other factors to consider.

So far this year, community bank M&A activity has been about historical levels. There is constant market chatter about whether banks under \$1B can ultimately survive given the increasingly burdensome regulatory environment, but that analysis is way too simple if you ask us. Asset size is important at some level, but quality management, good customers, a good franchise and other factors are more critical. That is why we believe many more community banks than expected will do just fine in coming years, even if they are smaller than some made-up asset size trigger for M&A activity.

Meanwhile, there's also an interesting challenge for banks approaching \$10B in assets. According to Fitch Ratings, these banks may be hesitant to cross that threshold with small deals because of the higher costs and regulatory burdens banks of this size have to grapple with. Instead, Fitch sees greater potential for mergers-of-equals between banks in this category because if you are going to go over the line, you may as well do so with gusto and get immediate scale. Only time will tell.

In matchmaking of any sort, finding the perfect partner isn't always an easy endeavor. Some banks are currently in the casual dating stage, some have broken up, others are not dating at all and still others are moving ahead to courting or beyond. It will be interesting to see how this year and beyond shapes up for matrimony, but our guess is that it probably remains about the historical normal level of 1% of the total every quarter. We also wonder how long it will be until banks can eventually do online dating to find a merger partner.

ECONOMY & RATES

Yesterday

Treasury yields still continued to fall as investor concerns over Greek sovereign debt triggered strong purchase activity and sent yields down 3bps by the close.

Today

Heading into the weekend, Treasury yields are up less than 1bp ahead of [housing starts](#).

Rates As Of: 05/16/2014 08:47AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	0.00	0.00
6M	0.04	0.00	0.00
1Y	0.08	0.00	0.00
2Y	0.36	0.00	0.00
5Y	1.55	0.00	0.00
10Y	2.51	0.00	0.00
30Y	3.33	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

BANK NEWS

Social ROI

A survey by Adobe of marketing professionals finds 88% say they cannot accurately measure the effectiveness of social marketing campaigns.

Default Risk

It is no wonder that regulators are anxious about student loans when you consider 9.1% of students whose loans came due after Q4 2009 defaulted - about 200% higher than the rate of 5Ys earlier.

Gen Y Branches

A TD Bank survey of millennials on the top 5 benefits of branches found: they are considered secure (55%), offer personal relationships and service (51%), easy to resolve issues or disputes (48%), receive financial advice first hand (35%) and get product information first hand (32%).

Customers

Research by BIA/Kelsey finds about 97% of small business customers use online sources to research products or services in their area.

Opportunity

A Bank Director survey of bank executives and directors finds the following are the top 5 factors analyzed when considering acquisition opportunities: size of deals the bank can afford (76%), potential targets (75%), market extension (75%), geographic expansion (67%) and deal price (65%).

Email Reading

Did you know research finds 51% of email is now opened on a smartphone?

Customers

Research by Neustar/Localeze finds customers will visit 2.5 online sources on average prior to making a buying decision.

Industry

As of the end of 2013, there were 6,301 banks and thrifts in the U.S. - the lowest level in close to 80Ys (1934).

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.