

Minnesota: 10,000 lakes and a river of bank M&A

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By Jack Chen and Kevin Dobbs

Minnesota ranks third among all states so far in 2014 in bank merger-and-acquisition activity, as rural and out-of-state buyers look to move into the economically diverse Twin Cities of Minneapolis and St. Paul.

As of Dec. 5, buyers had announced 16 whole-bank deals involving Minnesota targets in 2014. Only more populous Texas, with 23 deals, and Illinois, with 17, outrank Minnesota in terms of deal volume this year, according to an SNL Financial analysis.

Most recently, in early December, Greenbush, Minn.-based Border Bancshares Inc., the holding company for Border State Bank (\$369.5 million), said it had inked a deal to buy from First Advantage Bancshares Inc. its Coon Rapids, Minn.-based First Advantage Bank (\$70.2 million). The deal involves the buyer, a founding shareholder of the target bank, acquiring the stock and expanding its investment in First Advantage, which operates in the northern suburbs of Minneapolis.

Border Bancshares Chairman, President and CEO Robert Hager told SNL that he views the acquisition as “good diversification” for his company, which, at its northern Minnesota base, is focused in large part on agriculture and rural lending. Making its ties to the Twin Cities formal via the deal gives the company a broader array of customers from whom it can draw deposits and generate lending business, he said.

The Twin Cities metro area, with more than 3 million people — more than half the population of the entire state of Minnesota, known as the land of 10,000 lakes — is the “center for commerce and government and everything in Minnesota,” Hager said. That includes banking industry talent, he said.

Rural banks, while benefiting from a strong agriculture sector, want to diversify now while they are on solid footing so that they can capitalize on other industries in the future when the farm sector, inevitably, will slow. And, as farm operations grow now, they consolidate in the hands of fewer farm families — bigger farms, but fewer owners and operators — so small-town Minnesotans increasingly move to or near the Twin Cities for college and jobs. Banks outside the metro want to build pipelines to the younger talent that is blossoming in Minneapolis-St. Paul, Hager and others say.

At the same time, Hager said, community banks within and out-

Top states by M&A volume in 2014

Target state	Number of deals
TX	23
IL	17
MN	16
CA	14
FL	14
PA	11
OH	10

Data compiled Dec. 5, 2014.

Includes whole company U.S bank and thrift deals announced since Jan. 1, 2014.

Excludes terminated, government-assisted, asset and branch deals.

Source: SNL Financial



side of the metro area face the same challenges as their peers do across the country: heavy regulatory pressure and high compliance costs; low interest rates that have crimped margins; and intense competition from larger lenders, including regional heavyweights based in the Twin Cities area such as U.S. Bancorp and TCF Financial Corp. More community banks, tired of grappling with such burdens with small asset-bases, are deciding either to become sellers or buyers.

Either way, the idea is to gain heft to boost lending limits and broaden product offerings in order to better compete, and to create larger bases over which to spread out and better absorb compliance costs.

“The economics of the banking business have changed,” Hager said, making it increasingly difficult for many small banks, particularly those under roughly \$100 million in assets, to produce the returns necessary to satisfy shareholders. “That’s going to heighten [M&A] activity.”

Among those under that \$100 million threshold is First Advantage, Hager and company’s target.

James Amundson, president and CEO of First Advantage, told SNL that his bank decided to sell because management and the board realized that it simply needed greater size and more expansive offerings of products and services to compete with bigger lenders and to navigate the other headwinds.

“That’s what drove it for us,” he said. “And I think you’ll see that with a lot of our peers.”

Both Amundson and Hager said they anticipate that the M&A

Q4’14 US bank & thrift whole company deals where target is based in Minnesota

Buyer	Target	Announcement date	Deal value (\$M)
Border Bancshares Inc.	First Advantage Bank	12/02/14	NA
MidWestOne Financial Group Inc.	Central Bancshares Inc.	11/21/14	135.07
Deerwood Bancshares Inc.	American Bank of St. Paul	10/21/14	15.76
Complete Financial Solutions Inc.	Northern Star Financial Inc.	10/09/14	NA

NA = not available

Data compiled Dec. 5, 2014.

Includes whole company U.S bank and thrift deals announced since Oct.1, 2014.

Excludes terminated, government-assisted, asset and branch deals.

Source: SNL Financial



wave in Minnesota will continue to build and extend into 2015. They both noted that Minnesota has a relatively high number of small, privately held banks, and many lenders could sell to gain size and access to public markets.

SNL data show there are 340 commercial and savings banks in Minnesota; on a per capita basis, it ranks sixth among all states in terms of the number of banks chartered in the state. What's more, among the banks in Minnesota, more than half are privately held and under \$100 million in assets, according to an SNL analysis.

Of the 16 deals announced to date in Minnesota this year, nine involved targets under \$100 million in assets.

But not all the deals involved such small targets. There have been a handful featuring targets with assets of more than \$200 million, including one over the \$1 billion mark. That largest deal allowed an out-of-state player to gain entrance to the Twin Cities. Iowa City, Iowa-based MidWestOne Financial Group Inc., parent of MidWestOne Bank (\$1.80 billion), said in November that it planned to acquire Golden Valley, Minn.-based Central Bancshares Inc., parent of Central Bank (\$1.17 billion). Golden Valley is a Minneapolis suburb.

Prior to announcing the deal, MidWestOne Financial Group President and CEO Charles Funk had told SNL that Minnesota, in large part because of the Twin Cities, stuck out as vibrant market for banks.

Indeed, while bruised in the wake of the recession of the past decade, when housing markets sunk and unemployment climbed, Minnesota and its largest market have both recovered. The state's jobless rate fell to 3.9% in October from 4.6% at the beginning of the year, according to the Minnesota Department of Employment and Economic Development. Its unemployment rate, now at an eight-year low, is well below the 5.8% national average.

And Minnesota appears to be gaining momentum in the second half of this year. The state has added almost 50,000 jobs this year, with more than half of those jobs being created in the third quarter and early in the current quarter.

Tim O'Neill, a labor market analyst for the state of Minnesota, said job growth has spanned multiple sectors, from manufacturing to health care to construction. Expansion has been most visible in the Twin Cities. "Across the board," he said, "we are seeing some nice growth."

Central Bancshares President and CEO Kurt Weise said that, while his bank is technically the target in the deal with MidWestOne Financial, Central will retain its management team after the deal closes and operate as the Minnesota unit of the combined company.

He said the arrangement will allow the Minnesota operation to capitalize on the larger size of the merged company to build out its operations in the western and southern Minneapolis suburbs. And the combined company could continue on the M&A trail in Minnesota.

Weise said there are plenty of potential targets with management teams and boards that have grown tired of the regulatory gauntlet and low-rate environment. "There is fatigue out there," he said.

"We're not going to chase every deal," he added, but "we'll continue to look out at the M&A landscape for good opportunities."

Weise said that, regardless of his company's next step, consolidation is likely to continue in Minnesota. "There's more to come," he said.

*Chris Vanderpool contributed to this article. **i***