

# Buying a Weak Bank: Bargain or Nightmare?

BY ROXANNE EMMERICH



Then there are the operational challenges. Most bankers think that's the whole game—that acquisition is just a matter of getting the systems to talk. As much hassle as this involves, this is the least of your worries.

Far more troubling are the two years minimum of “us-and-them” bickering that will challenge you to the core of your being—if not send you to the funny farm. Your fractured team will not be cohesive in following strategies and meeting goals because endless time will be spent talking about why “they” (the other team) are losers instead of working together to get new customers and upgrade the ones you have. Since culture is the leading predictor of future growth and profitability, what

**A**ttention K-Mart shoppers! The blue light is flashing! Distressed banks are everywhere! As a result, the phone has been ringing off the hook with a single burning question: “Should we acquire?”

Since my article “Acquisitions Are For Wimps: How to Grow Your Bank without Merging, Acquiring, or Marrying into It” has been reprinted in over 40 banking publications in the past twelve years, you might guess my answer.

**The pressure is sexy. You know others are bidding, so it turns into a game. Activity begins before the thinking does because the competitive pressure to “win the deal” takes over.**

But are things changing? Is it time to buy now?

Consider this: I haven't met a bank performing in the top 5 percent that was

in the acquisition game. Success leaves clues. So what does this clue tell us?

First, when you acquire, you acquire bad loans. EVEN if the FDIC limits your monetary risk, they can't limit the amount of time you'll spend in court, and the ongoing distraction of cleaning up the portfolio will keep your lenders off the streets instead of pulling in the best prospects.

They'll be distracted for years. They'll likely lose their mojo. And that's costly.

During those same years, you could have invested in picking off the very best customers of many banks in your area. You could

have upgraded the quality of your clients. You could have decreased the risk of your portfolio and improved your net interest margin. Is it just me, or doesn't that sound a heck of a lot better?

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will two years of disengaged employees cost you?

Next, you've missed the opportunity to increase the profitability mix. Smart bankers don't measure the number of accounts. They know the number and size of **extremely profitable** accounts. Acquisitions take you off course here as well.

If you aren't convinced yet, think about your safety rating. Have you noticed that consumers are now fully trained to look up your ratings online and perfectly willing to talk to you about those ratings? Have you noticed that they're starting to make buying decisions based on those ratings? If you've held a good rating up until now, why risk it? Many of the banks that have acquired

are burdened by having to explain, day in and day out, why their safety rating was lowered.

And what about opportunity cost? What if you deployed your capital growth in healthier ways? Capital is limited—be stingy with every dollar of it.

Lastly, it's just not strategic. If you're thinking strategically as an executive, you are starting by identifying the primary markets you are to pursue—those that are most profitable for you. Acquiring gets you “commodity customers” with commodity pricing. Unless you are choosing to elect nonprofit status, this is probably not a good move.

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The hangover of regret is expensive. It's the ultimate buyer's remorse.

This is one area where being a sheep—following the other bankers because the “deal of a lifetime” is at your doorstep, and somebody else might get this deal unless you move fast—could be a mediocre step at best. At worst, it could be a career destroyer. So think again.



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