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Why these banks favor hiring, branching over M&A

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For all the talk about a mounting wave of mounting wave of mergers, a number of banks in recent weeks have announced plans to hire talent and open offices to enter new markets or expand in existing ones.

While acquisitions can provide a buyer with immediate scale, bankers say there are still advantages to slow-and-steady organic growth, adding that hiring lenders with built-in relationships is often the most seamless way to extend a footprint.

Howard Bancorp in Baltimore is a case in point.

The $2.6 billion-asset company in April announced it had hired three senior commercial lenders to enter the Washington area. The goal is to capitalize on the economic strength of the nation's capital and the ties that come with bringing on bankers with years of experience in the market.

Pushing boundaries

Here are examples of banks opening branches or hiring lenders to enter new markets

Company	Headquarters	New market
CF Bancshares	Columbus, Ohio	Indianapolis
FB Financial	Nashville, Tenn.	Birmingham, Ala.
First Carolina	Rocky Mount, N.C.	Hampton, Va.
Howard Bancorp	Baltimore	Washington
ServisFirst	Birmingham, Ala.	Orlando, Fla.

Source: The companies

“We’ve been fortunate to attract some very talented people,” said Howard President and Chief Operating Officer Robert Kunisch Jr. “When you can do that, you can follow with retail capabilities and smart ATMs as you grow. … It is more efficient than the long process of finding an acquisition and seeing it through.”

At the same time, he said, there are few targets left in Washington after years of consolidation, and Howard didn’t want to wait until one of them was available.

“Things are really starting to cook now” as the pandemic’s impact fades, Kunisch said. “We see real opportunity in Washington and very, very strong demographics. Now was the time.”

Banks are taking a renewed look at organic growth by using a combination of hiring bankers from competitors and opening locations to build out footprints, said Jacob Thompson, a managing director of investment banking at Samco Capital Markets.

“I think banks are looking at a number of options and many of them are not necessarily wanting to depend on finding an acquisition to grow or to get into a new market,” Thompson said.

Organic growth also allows banks to enter a market with a clean balance sheet, as opposed to inheriting potential credit quality issues when they complete an acquisition, industry observers said.

First Carolina Bank in Rocky Mount, North Carolina, opened its first branches in Hampton, Virginia, and Virginia Beach in March. New hires accompanied the openings.

“With continued industry consolidation, there are simply fewer community banks left that provide a high level of personal service, competency and speed of decision-making for all customer requests, and we plan to meet that need,” said Ronald Day, the $1.1 billion-asset bank’s president and CEO.

FB Financial in Nashville, Tennessee, recently opened a loan production office in Birmingham, Alabama. The $11.9 billion-asset company said during its first-quarter earnings call that a full-service branch will follow later this year. The company, which had already been originating mortgages in the area, is looking to capitalize on an opportunity to market more products and services as the economy rebounds.

All growth options are on the table for FB Financial, President and CEO Christopher Holmes said.

"We think about acquisitions, straight-up acquisitions of a bank,” Holmes said. “We think about branch deals if the right kind of branch deal popped up. We think about trying to acquire leading bankers in the market. All of those would be a part of our strategy.”

But, Holmes said, a methodical de novo expansion emerged as the most appealing in the near term.

On the heels of a successful Houston expansion, Cullen-Frost Bankers in San Antonio in April announced plans to open 25 offices in Dallas in the next 30 months in a move that will nearly triple its presence in the city.

Chairman and CEO Phil Green said he prefers controlled organic growth over mistiming a surge in M&A. “I don’t want to be spending a lot of shareholder money to throw the long ball and hope something good happens,” he said on during a quarterly call with analysts.

To be sure, many banks have been cutting branches as clients increasingly bank online. But Cullen/Frost says some branches are necessary to meet customers’ needs, and they function as important billboards and meeting spaces in newer markets. Its recent expansion in Houston exceeded deposit and loan targets and helped boost the bottom line in the first quarter.

Still, de novo expansion remains an emerging story. Most banks in the first half of 2021 are being cautious with their growth as they wait on assurances that coronavirus vaccines are working and that the pandemic is nearing an end.

The $14 billion-asset Plains Capital Bank in Dallas, for one, is optimistic about coming quarters, noting that recent growth in gross domestic product, an improving labor market and pent-up demand for products and services across the economic spectrum.

“But we’re not entirely out of the woods yet,” President and CEO Jerry Schaffner said. “I think you still have to be a little cautious. We’d like to make sure we get to the end of the tunnel without it collapsing.”

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