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# The Five W's (Plus One) of Acquisitions and Branching

In 1854, French chemist Louis Pasteur stated, in part, that "chance favors the prepared mind." These words are as true today as they were more than 150 years ago for any financial institution seeking to acquire another institution or a branch.

The following outlines a straight-forward process to plan and prepare for the opportunities that lie ahead in connection with acquisitions and branching.

***Why?*** It is an ideal time to consider acquisition opportunities.

As the recession has taken hold over the last several years, it is evident that a number of institutions cannot and will not survive the new economic realities facing the local, national and international markets. There is also a widespread belief that institutions must obtain a minimum size in order to cover the increasing costs of technology and regulatory compliance requirements, many of which were brought on by the Dodd-Frank Act.

In addition, many institutions (and their shareholders) may be motivated to sell ahead of the changes in federal tax laws in 2013, which will take place absent congressional action. In particular, tax rates on dividends and long-term capital gains are currently at 15 percent, as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003. However, beginning Jan. 1, 2013, dividend tax rates will increase to as high as 39.6 percent and the long-term capital gain rate will rise to 20 percent. The Patient Protection and Affordable Care Act will add a 3.8 percent Medicare tax, effective Jan. 1, 2013, on not only earnings, but on all income for certain persons in higher tax brackets.

***What?*** Before an institution actively pursues another institution or a branch, it is imperative that the institution prepares a strategic plan that analyzes the impact of expansion opportunities, as well as what resources the institution is able to devote to the expansion process.

Items to consider include:

- How will the acquisition add value to the shareholders? Ultimately, this is an important consideration for the boards of directors of both the acquiring institution and the seller.
- What are the markets that best fit the acquiring institution's profile?
- What is the competitive landscape in the acquiring institution's current and prospective markets?
- How can the acquiring institution increase its market share in its current markets?
- Does the acquiring institution currently have appropriate staffing to take on additional locations or does it need to obtain additional management and lending personnel?
- Is there sufficient loan demand in the new market to support the additional deposits?

Note that, based on the strategic plan, if the acquisition of another institution or branch is not in an institution's best interests, an alternative approach may be to hire new personnel and establish a loan production office in a strategic market.

***Who and where?*** Now that the institution's strategic plan is established, identify the targets in the prospective markets.

Generally, targets are identified through personal relationships with key individuals involved with the target, including management and major shareholders, as well as legal and accounting professionals.

As part of the identification process, evaluate the targets' financial performance, locations, personnel and community ties to make sure the target fits within the acquiring institution's overall structure and culture. Do not underestimate the need to analyze the personnel and the community ties of the target — the long term success of the transaction may depend on this analysis.

***When?*** Involve the board of directors and other key personnel early in the process.

The board must be given ample time to digest all available information and ask questions. The board minutes should document all of the discussions and decisions with respect to the potential acquisition.

It is imperative to engage the necessary legal and financial advisors, including accountants and investment bankers, as early as possible to make sure the transaction is feasible and to help with strategy and structure. These advisors can serve as great tools to help analyze the impact of the transaction on the acquiring institution's capital and other performance ratios, the effect of the transaction on any pending regulatory orders and pricing of the transaction. Regulators should also be consulted about the transaction well in advance.

Depending on the size and circumstances surrounding the transaction, due diligence, negotiation of a letter of intent and the definitive transaction documents, and the approval process for any regulatory applications may take anywhere from several weeks to a few months. Many factors impact the timing of a transaction, including the size of the transaction, the type of assets being bought and sold, and the regulatory condition of the acquiring institution and the target.

***Now what?*** Planning and preparation are important aspects of any transaction. Absent these key components, the success of the transaction is left to chance. Start thinking now if your institution is poised to take advantage of the current market place and how best to succeed in such an endeavor. BN