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COVER STORY

Banks Hunt for Liquidity To Boost Stock Prices, M&A

By Andy Peters

Community banks are looking to give their publicly traded stocks and M&A strategies a turbo boost.

Some of these banks may move to a new stock market to reverse one of the main drawbacks that comes with deregistering under the Jumpstart Our Business Startups Act, or JOBS Act — a significant decrease in a stock's trading volume.

The new stock market is designed exclusively for community banks. OTC Markets Group has developed a platform for the 650 community banks that now trade on its general over-the-counter platform. Executives have long worried that they're being missed by a wide swath of potential investors.

"We realize our stock's trading volume needs to be heavier and we need more people focused on our bank," says Ronald Baron, the chief financial officer at Virginia National Bankshares in Charlottesville.

The $484 million-asset company will likely move its shares from OTC Markets' OTCQB platform to the new OTCQX Banks platform, Baron says. Virginia National wants more visibility with broker-dealers and investment advisors, which Baron hopes will give it a more valuable currency for pursuing acquisitions.

"Having an actively traded stock and a stock price above book value is definitely a big plus in looking for acquisitions," Baron says.

Surging stock prices have been a big factor behind some recent bank acquisitions. When the $12.9 billion-asset BancorpSouth this month agreed to acquire Ouachita Bancshares for $112 million in cash and stock, it likely wanted to take advantage of a 67% increase in its stock price over the previous year, says Andrew Stapp, an analyst at Merion Capital Group.

The JOBS Act has helped banks save a significant amount of money through lower regulatory costs, primarily freedom from Securities and Exchange Commission reporting requirements. Many banks that have deregistered through the JOBS Act shifted their stocks from Nasdaq or the New York Stock Exchange to OTC Markets platforms. Last year, 35 banks joined OTC, many of which did so after they deregistered, says Tim Ryan, vice president and managing director at OTC Markets.

That move often lowers a bank's profile since its financial reports are not available in the SEC's system, and because of the lower trading volumes associated with over-the-counter markets.

Further, community banks get lumped with a group of undesirable stocks—bankrupt companies, shell companies or financially distressed organizations, says Michael Natzic, a senior vice president at Crowell, Weedon.

"For as long as I can remember, banks have been commingled with less-than-creditable issuers on the smaller markets," Natzic says.

The OTCQX Banks platform will require its listed banks to assign a broker-dealer that specializes in community banks to serve as their capital markets advisor. OTC will also compile trading benchmarks to broker-dealers. Banks will be required to file all quarterly documents with OTC for public distribution.

Call reports filed with the FDIC provide a great deal of financial information on banks, Ryan says. The problem is that they are difficult for many investors and analysts to interpret. Further, they only disclose financials on the bank level, and not the holding company level. "They do not show the complete financial picture of the holding company and could exclude material financial information necessary for investment decisions," Ryan says.

Not all bankers are convinced that a separate over-the-counter market will help banks' liquidity issues. OTC stocks see very limited activity because of their nominal float, says Paul Rodeno, head of the San Diego market for the $6.6 billion-asset CVB Financial. That means a bank stock's trading price will drive the value of the company.

"It's not a fair proxy for price, as community banks are worth more in a sale than in a small stock transaction," says Rodeno, the former CEO of Security Business Bank of San Diego, which was acquired in July 2012 by AmericanWest Bank in Spokane, Wash.

"I'm not sure I would list [my bank's] shares on the market, if I had the option," Rodeno says.

Even with a separate platform exclusively for banks, OTC Markets itself is much less known than the New York Stock Exchange or Nasdaq, says Jim Fleischer, a banking attorney at Silver, Freedman, Taff & Tiernan.

"The issue is volume," Fleischer says. "There simply is not enough trading activity in these stocks. There wasn't much trading in these banks' stocks, even when they were [SEC]-registered public companies."

Even with lower volumes, a platform specifically for banks should help address visibility issues, simply by giving them more exposure than they receive now, says Joey Warmenhoven, a senior vice president at McAdams Wright Ragen. "It's a good idea," Warmenhoven says. "It will give banks more exposure." ▪

andy.peters@sourcemedia.com