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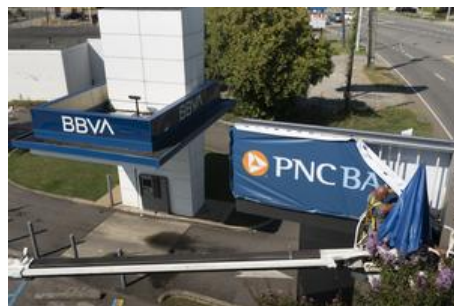
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<https://www.bizjournals.com/birmingham/news/2021/10/07/pnc-bbva-merger.html>

Banking M&A and its impact on the Magic City

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Two large transactions among four banks, each with a significant presence in the Birmingham market, is shaking up the local banking landscape. ¶ The latest mergers – one between PNC and BBVA USA and another between Cadence Bank and BancorpSouth – mean consolidated branches in overlapping markets and widespread uncertainty for bank employees. It also makes way for even more M&A activity or potentially a new bank as displaced talent seeks new projects.



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Greg Crick, left, and his brother Berry Crick with Magic City Signs install a PNC sign at once was the BBVA drive-thru in Roebuck.

By far, the biggest of the two mergers with the greatest impact on Birmingham is Pittsburgh-based PNC Bank's acquisition of Houston-based BBVA USA Bancshares Inc., and its Birmingham subsidiary BBVA USA. That \$11.6 billion deal has significant implications for the combined institutions' Birmingham and Alabama operations.

On a smaller scale, the \$6 billion Cadence Bank/BancorpSouth Bank merger likely won't affect the Birmingham market as much since it will still be headquartered nearby, said Birmingham attorney Paul Compton, who represents banks in mergers and acquisitions.

These transactions will affect each bank's presence in the metro market, and it will affect other banks as well because deals of this size could have a domino affect, spurring additional activity as smaller banks try to keep up.

COMMUNITY BANK IMPACT

Michael Murphey, vice president of Porter White & Co.'s community banking practice, said these large bank mergers make it harder for

community banks to compete so they too could be looking to marry up to increase scale.

Where big banks have a leg up is in the number of products and services they can offer, particularly when it comes to their digital presences, Murphey said. That's important to the younger, more tech-savvy generation who prefer online banking rather than walking into a branch and seeing familiar faces.

But it's not all bad for small banks.

"Regions and PNC are going to dominate, but there will always be room for well-run community banks in the Birmingham market. A well-managed community bank can deliver a level of personal service to its local community that a big bank can't, and they can make good money doing it," Murphey said. "PNC and Regions both have a strong digital presence. This will put pressure on smaller banks in the Birmingham market to compete, as clientele in Birmingham is probably more comfortable with digital than customers in more rural markets and will require this level of service."

But scale to compete with these larger banks on the technology side isn't the only driving factor of the additional M&A that experts expect to see trending up. Murphey said low interest rates, excess deposits and slow loan demand is lowering net interest margin, making cost control in community banks increasingly important.

As a result, community banks are following the same trend of merging with other banks – albeit on a much smaller scale.

"Banks are looking to grow scale through mergers to address these issues," said Murphey, adding that there have been six community bank mergers in Alabama in 2021 alone. "The recent SouthPoint/Merchants Bank deal is a good example of this: two fine banks in two great markets – Birmingham and Cullman – coming together to form a \$1 billion community bank that has the scale to compete with larger rivals."

OPPORTUNITIES ABOUND

These mergers are creating space for more competition in the market.

Mergers typically displace talent, and with transactions of this size, there will be a number of talented bankers looking for their next venture. Murphey said there is plenty of capital available to launch a new bank.

But de novo activity has been muted. There have only been five de novo applications submitted nationwide in 2021, versus a high of 20 applications in 2019. Prior to 2020, the Fed had signaled to bankers that de novos were welcome. But the Covid-19 pandemic and the resulting economic factors as well as a new presidential administration put a damper on that activity.

"It's tough to get a bank charter, and it's a very competitive environment," Murphey said. "If you have a growth market that can

support additional banking capacity, de novos make sense. Nova Bank in Huntsville is a good example of this.”

Michael Rediker of Olsen Palmer previously told the *BBJ* it is more likely the market will see these bankers and investor groups seek to purchase existing bank charters and try to enter the Birmingham market through that route.

Despite the presence of big banks like Regions, BBVA and PNC and the highly competitive environment, several well-run, deposit-rich banks in smaller communities have opened or are looking to open branches in Birmingham for loan growth, Murphy said.

“Birmingham is a growth market,” he said. “And banks like to be in growth markets.”

HQ LOSSES

Another aspect of these transactions is the result of one less Birmingham-headquartered bank.

Sara Robicheaux, dean of business at Birmingham-Southern College, has been studying the banking industry in Birmingham for more than two decades. The main change, she said, is a reduction in the number of large bank headquarters located in the Magic City.

“At one time, Birmingham was home to more bank total assets than any city other than New York and Charlotte,” she said.

In recent years, Birmingham lost Cadence Bank to Atlanta, which will now have dual headquarters in Tupelo, Mississippi, and Houston because of its merger with Tupelo-based BancorpSouth. The metro also recently lost National Bank of Commerce when it merged with a Winter Haven, Florida, bank.

But Robicheaux said the impact to the community at large has been limited since there are plenty of banks in the area to serve the needs of businesses, individuals and communities. Where it hurts is in the job losses.

“Typically, one of the sources of cost savings in these deals is through elimination of duplicate positions at the two banks,” she said. “In that sense, it is hard to see how these deals are beneficial to a city like Birmingham.”

Compton agreed the job losses with the PNC takeover of BBVA USA could be considerable.

“The merger of BBVA into PNC is likely to make available a lot of banking talent for other growing institutions in the Birmingham market,” he said. “Corporate leadership is likely to be focused on larger markets in Texas and points West.”

But he said “the merger of BancorpSouth and Cadence will likely pull BancorpSouth more firmly into the Birmingham market.” That means the bank will maintain some local decision-making, resulting in closer ties to the community, he said.

The good news is both PNC and Cadence will maintain large presences in the metro.

Cadence will have an operations center in Birmingham. Dan Rollins, chairman and CEO of Cadence Bank, said he expects continued growth in employee count as well as customers in the Birmingham market. He also sees the merger as an opportunity to grow the combined bank in other Alabama markets like Tuscaloosa and Auburn.

Birmingham is “right smack in the center of our footprint, so it’s a perfect place for us to have some support staff and operations teams,” Rollins said.

And PNC Bank Greater Alabama Regional President Nick Willis said the PNC Technology Center in Birmingham, which will leverage the investments BBVA USA has made in technology, innovation and local talent, will support the bank’s expansion and growth across the country.

“Birmingham also will be a key beneficiary of the \$88 billion Community Benefits Plan announced several weeks ago in connection with PNC’s acquisition of BBVA USA,” Willis said. “As part of this plan, the bank intends to maintain or increase the current levels of philanthropic support provided to community groups in Birmingham by PNC and BBVA USA.”