

The background of the slide features a draped American flag. In the lower-left foreground, there is a black oil barrel. To the right of the barrel, two small white model airplanes are positioned on a light-colored wooden surface.

# **IS A COMMUNITY BANK WORTH BUYING?**

**MERGERS CORP**  
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# **IS A COMMUNITY BANK WORTH BUYING?**



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# Is a Community Bank Worth Buying?

The process of purchasing a community bank can be very frustrating if you don't have the right information. Many investors dream of acquiring a community bank but when they learn the many hoops involved, they quickly shun the idea. Here, we have put together a step-by-step guide to understand what it takes. Are you wondering, 'How does one buy a Community Bank?' The following insights should lead you to taking the right decision.

## 1) Identify Potential Community Bank For Sale

What is your ideal acquisition candidate? Have you figured out what bank you want to buy in the first place? Start by identifying the institution that fits your capital ability and business needs. A lot of factors will come into play during this initial step. You will have to consider :

- The type of charter
- Quality of assets
- Number of branches and
- Geographical location





## 2) Create a Checklist

When planning to buy a bank, you cannot shirk on due diligence. It is crucial that you understand exactly what you are about to acquire. That's why you need a checklist comprising :

- Governance
- Assets and liabilities
- Management due diligence
- Regulatory requirements

## 3) Negotiations

An investor who knows how to buy a bank understands the power of negotiating. Before you propose a price, know the different factors that affect the valuations of banks. There are key considerations for determining the price of a bank. Examples are :

- Asset quality
- Local market trends
- The strength of the business plan
- Brand value
- Profitability analysis
- Value of the branch network
- Lines of business
- Growth forecasts



Negotiations extend to the definitive acquisition agreement. This is a contract that highlights the details of acquiring a community bank. It entails :

- Terms and conditions
- The price
- Existing portfolio treatment and loss sharing
- Non-approval risks and their solutions

#### **4) Funding**

To safely fund the acquisition, it is good to use an Escrow system. Choose a stable bank to hold your money. Before choosing your Escrow agent, be sure to perform your due diligence on this company.

#### **5) Submission of Change of Control Application**

After applying the Change of Control, you need to fulfill all the requirements of bank regulators. As a new investor, you are supposed to submit your financial background in addition to your personal information. Some of the factors that may disqualify you immediately include foreclosures, bankruptcies, and criminal history among others. Basically, you will have to schedule meetings with the regulating agencies. It is at this point that you will be required to defend your business plan.





Investing in small community banks can be profitable in many ways. For one, these institutions have little or no competition. While they seem boring, they are quite predictable. The vast majority of community banks fall under microcap stocks. With low market capitalization, they don't have much investor awareness. They may not have a history since all they do is to provide safe deposits and lend out the money. Since they lack self-promotion, they are hidden from the eyes of mega investors. But the lack of research could be a hidden gem. Many times, you will not find any research conducted on them. This should therefore strike your interest when you are looking for alpha. If you trust in alpha generation from undervalued companies with low attention, then a community bank is worth buying.

Find out exactly how you can make a bid for a community bank at [mergerscorp.com](http://mergerscorp.com). MergersCorp™ M&A International is your go-to solution when buying or selling any bank. Our financial experts are ready to take you through the whole process especially when you want to sell or buy a bank confidentially. We ensure that your interests are fulfilled.



# Our M&A Process

| TARGET APPRAISAL   | APPROACH   | DUE DILIGENCE   | NEGOTIATION & CLOSE  | POST MERGER INTEGRATION (PMI)  |
|--|--|---|--|--|
| Key Areas  |  |   |  |  |
| <ul style="list-style-type: none"> <li>Target &amp; market analysis;</li> <li>Initial assessment of synergies &amp; value drivers;</li> <li>Indicative valuation;</li> <li>Go or No-Go decision;</li> <li>Preparation of transaction documents (NDA – Non-disclosure Agreement/LOI-Letter of Intent);</li> <li>Select Transaction team;</li> <li>Appoint advisors;</li> <li>Consider funding ability.</li> </ul> | <ul style="list-style-type: none"> <li>Initial approach letter;</li> <li>Signing of NDA;</li> <li>Prepare &amp; share initial information requests;</li> <li>Formulation of LOI (Letter of Intent) &amp; possible negotiations;</li> <li>Initial meeting and Q&amp;A;</li> <li>Circulate information on the Target to the Transaction team.</li> </ul> | <ul style="list-style-type: none"> <li>Set scope of due diligence;</li> <li>Set up VDR (virtual data room);</li> <li>Coordinating of due diligence, further meetings and Q&amp;A sessions;</li> <li>Consider points relevant to the Post-Merger (PMI) phase;</li> </ul> | <ul style="list-style-type: none"> <li>Revisit indicative valuation &amp; prepare detailed valuation based on due diligence findings;</li> <li>SPA negotiations with the seller;</li> <li>Development of final structure (share/asset deal) and final valuation;</li> <li>Approvals;</li> <li>Signing of SPA &amp; Close.</li> </ul> | <ul style="list-style-type: none"> <li>Consider the extent of integration;</li> <li>Development of 100 Day PMI Plan;</li> <li>Consider short &amp; long term objectives;</li> <li>Estimate requirements to capture synergies;</li> <li>Determine resource needs &amp; optimal allocation.</li> </ul> |
| Parties Involved   |  |   |  |  |
| <ul style="list-style-type: none"> <li>CFO;</li> <li>Head of M&amp;A;</li> <li>Accountants;</li> <li>Corporate finance advisors;</li> <li>Consultants.</li> </ul>  | <ul style="list-style-type: none"> <li>Senior management;</li> <li>CEO, CFO, CTO;</li> <li>Strategy director;</li> <li>Head of M&amp;A;</li> <li>Head of Business Development;</li> <li>Consultants.</li> </ul>  |   | <ul style="list-style-type: none"> <li>Company general counsel;</li> <li>Lawyers;</li> <li>Senior management.</li> </ul>   | <ul style="list-style-type: none"> <li>Company general counsel;</li> <li>Lawyers;</li> <li>Senior management/HR.</li> </ul>  |



The background of the advertisement features a close-up of the American flag on the left, showing the stars and stripes, and a stack of US dollar bills on the right, including a prominent \$100 bill. The entire image has a dark, semi-transparent overlay.

# LOOKING TO BUY A BANK?

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FOR MORE INFORMATION

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