



Two High-Profile Names Seek Growth from Failed Banks

American Banker | Tuesday, July 13, 2010

By [Robert Barba](#)

Two big names in industry circles just planted seeds they hope will sprout into the East Coast's next billion-dollar banking companies.

On Friday, a private-equity firm backed by principals of the investment bank Hovde Financial Inc. purchased the failed Bay National Bank in Baltimore in a deal assisted by the Federal Deposit Insurance Corp. Also Friday, former Sovereign Bancorp Chief Executive Jay Sidhu deployed some of the \$70 million of capital his firm has raised by purchasing the failed USA Bank in Port Chester, N.Y.

The deals were key for the acquirers, and Hovde's marked a breakthrough in private-equity investors' aspirations to buy more shuttered banks from the FDIC.

"It is an encouraging sign that we are getting fresh capital into the banking system. Hopefully, this will be the beginning of more deals like this," said Frank Bonaventure, a principal at Ober, Kaler, Grimes & Shriver and a former senior counsel at the Office of the Comptroller of the Currency.

In November, the Office of Thrift Supervision precleared Hovde Acquisition LLC for a charter, that regulator's version of granting a shelf charter. The Washington firm has been looking for an opportunity since then. (Despite sharing the Hovde handle and some personnel, the private-equity firm is separate from Hovde Financial, which advises banks on things like mergers and capital raising.)

It has been rare for private-equity firms to strike deals with the FDIC. Including the Hovde Acquisition, only four groups have managed to pull off such deals since 2009, a period during which 230 banks have failed.

The locations of Friday's failures — Baltimore and Westchester County, north of New York — were also notable. While the Mid-Atlantic and Northeast do not have as many troubled banks and consequently are not expected to have as many failures as the Southeast and Pacific Northwest, for example, they are likely to be home to more calculated plays.

"Clearly, there are a lot of failures in the Southeast and Midwest, but we still see more opportunities in this market," said Richard Perry, a managing member of Hovde Acquisition. "The Bay acquisition was clearly a strategic move on our part to get a foothold in the Mid-Atlantic area." Perry said Hovde Acquisition is putting \$24 million of capital into Bay Bank FSB, the newly chartered thrift that the FDIC approved last week as the receiver of Bay National's assets. It also received approval for the creation of Jefferson Bancorp Inc., which will serve as the holding company for Bay Bank.

Eric Hovde, a managing member and chief investment officer at the private-equity firm, said Friday that it had considered recapitalizing the \$282 million-asset Bay National while it was still open, but instead opted to wait to bid for it in failure. "It needed too much capital," Hovde said. "It had too many losses to do it on a stand-alone basis."

Now that it has its vehicle, Hovde Acquisition is looking to expand in a big way. "We are planning to build a high-quality franchise off of Bay," Hovde said. "We are casting our net wide and hopefully will grow this to a billion-dollar bank."

Like other private-equity firms, Hovde Acquisition will be seeking to diversify as it expands. The group has pending investments to take 24.9% ownership stakes in the \$276 million-asset Georgia Primary Bank in Atlanta and the \$200 million-asset FirstAtlantic Bank in Jacksonville, Fla., two institutions with squeaky-clean portfolios that Hovde Acquisition plans to use as vehicles for roll-ups.

Meanwhile, Sidhu has said he is not interested in recapitalizing struggling banks. Instead, he plans to deploy capital for organic growth and failed-bank acquisitions. On Friday, he ramped up that quest, as his nearly \$600 million-asset Customers 1st Bank of Phoenixville, Pa., picked up the \$200 million-asset USA Bank.

Like Hovde, Sidhu's strategy has been calculated. He has a wish list of banks he'd like to pick up as he aspires to grow into a much larger institution. He has been down that road before — as the chairman and CEO of Sovereign, Sidhu expanded a \$500 million-asset thrift into a \$90 billion-asset regional behemoth. Banco Santander SA bought Sovereign last year.

USA Bank was among his top five prospects, and it is the first takeover his company has pursued. "We've analyzed every single bank in our target market," Sidhu said Monday. "The bank was a victim of the downfall of Wall Street. And as Wall Street recovers, so will this area. And this was a way for us to enter that market in a way that is attractive to our shareholders."

While Sidhu has been looking for the right failed bank to buy, he has been busy with organic growth. Customers 1st, previously known as New Century Bank, has expanded its assets from \$349 million on Dec. 31 to "more than \$800 million today" including the assets from USA Bank.

Sidhu said the company has been courting former Sovereign customers, increased its loans backed by the Small Business Administration and branched into warehouse lending. His goal is to build a multibillion-asset company and for that growth to be contiguous, meaning he must fill in much of the 150 miles between Port Chester and his company's headquarters. "It always helps to have a contiguous network," Sidhu said. "But to me, it is more important to be in very attractive markets."

© 2010 American Banker and SourceMedia, Inc. All Rights Reserved.
SourceMedia is an Investcorp company. Use, duplication, or sale of this service, or data contained herein, except as described in the Subscription Agreement, is strictly prohibited.

For information regarding Reprint Services please visit:
<http://www.americanbanker.com/aboutus/reprint-services-rates.html>