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Talmer Bancorp Breaks New Ground in Complex M&A

Talmer Bancorp in Troy, Mich., is advancing to the expert level in the game of buying troubled banks.

The $4.5 billion-asset Talmer started with the acquisition of failed banks—no easy feat, given the competition for such deals and the complex accounting that accompanies loss-share agreements with the Federal Deposit Insurance Corp. Last year Talmer moved on to an open-bank deal brokered by a bankruptcy court.

Now, it is looking to buy a group of banks in bankruptcy court while making sure it doesn't inherit the ghosts of their troubled seller's past.

Talmer announced Monday that it would acquire the four remaining banks owned by Capitol Bancorp, the ailing Lansing, Mich., company that has spent the last five years selling off and merging its far-flung units in order to survive.

Earlier this year regulators began shutting down Capitol's weakest units. The FDIC can stick the cost of failure onto surviving siblings, and Talmer is requiring a waiver of such claims—known as the cross-guaranty liability—as a condition to complete the deal.

At the heart of the deal is Michigan Commerce Bank, a bank created in 2009 by the merger of ten of Capitol's units across the state. At $612 million of assets, Michigan Commerce represents 62% of the assets Talmer would acquire.

"Michigan Commerce is probably the last big community bank play in Michigan," says Eliot Stark, a bank consultant based near Detroit. "It does some nice things for them. Some of these [merged Michigan] banks were the nicest parts of Capitol Bancorp. It takes them into Ann Arbor, which is a great market, too."

Some of Michigan Commerce's best customers may have left given Capitol's struggles, but it is still a bank worth pursuing, Stark said.

The other banks included in the deal are: the $235 million-asset Bank of Las Vegas; the $97 million-asset Indiana Community Bank; and the $46 million-asset Sunrise Bank of Albuquerque (N.M).

David Provost, the chief executive of Talmer, declined to comment for this story. However, his intentions for Talmer are well documented. With the backing of billionaire Wilbur Ross, Provost has set out to build a Midwestern franchise.

Talmer has acquired four failed banks in Wisconsin and Michigan since 2010 and bought an Ohio bank from a bankruptcy court last year. Those deals have put Talmer on the way to hitting its goal, but it has gaps in Indiana and Illinois—notably in the Chicago market. Although it is small, the addition of Indiana Community, in Goshen, would put Talmer a step closer to the Second City.

The Albuquerque and Las Vegas units raise questions because they lie outside Talmer's Midwestern territory. Both banks are significantly undercapitalized, too. New Mexico regulators threatened to seize Sunrise late last year if it did not strengthen its capital position.

Observers speculate that it was easier for Talmer to agree to buy all four banks to ensure it got the ones it really wanted.

"Talmer was probably one of the few willing and able to take the whole thing," Stark says. "It is probably much cleaner to take it all. Plus they have a lot of experience in working out bad loans given the deals they've done."

Talmer's offer for the banks includes $4.5 million in cash and an additional $2.5 million in administrative fees. It is also committing up to $90 million to recapitalize the banks. The auction is tentatively set for Nov. 7, according to court documents.

However, the deal is far from complete.

It is unclear how difficult it will be obtain a waiver for the failed-bank liability. The FDIC granted waivers to the buyers of several of Capitol Bancorp's other units in relation to a 2009 failure of a bank that regulators say was connected to Capitol. It hasn't granted waivers yet regarding the five Capitol units that failed this year.

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Capitol has three other bank units that are set to be acquired through bankruptcy sales.

Meanwhile, bankruptcy auctions are becoming more competitive as credit quality improves at the underlying banks and as buyers become more comfortable executing on a transaction within the confines of the court. Simmons First National created a stir last month when it agreed to pay nearly $54 million to acquire Metropolitan National Bank in Little Rock, Ark., unseating private-equity firm Ford Financial Group's initial bid of $16 million.

For Capitol—which at one time sought to own 100 charters across the country— the deal would be the final chapter in its effort to save itself.

The deal with Talmer covers the last of its inventory. Last year it filed for bankruptcy reorganization in the U.S. Bankruptcy Court in the Eastern District of Michigan with the hopes of bringing in new equity alongside its existing shareholders. The bankruptcy effort turned into sell-off after the new equity failed to materialize and regulators began seizing the banks.

By Robert Barba