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BISON BANKING BRIEF

September 2024 | U.S. Banking Insights

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Bison Banking Brief – September 2024

Key Themes in U.S. Banking

September FOMC Meeting – Policy Pivot

- After keeping rates higher for longer at a range of 5.25%–5.50% for over a year, the Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by ½ percentage point
  - While the market priced in the odds of a 25bp cut at 86% just one week before the meeting, the odds between a 25bp and a 50bp cut were roughly even a day before the meeting
- In his speech, Chair Powell sought to reassure the public that the economy is in good shape, and justified the size of the rate cut as a part of a commitment to not fall behind and do their part to keep the economy strong
- Michelle Bowman was the only governor that dissented and voted for a 25bp cut, as she perceived a 50bp cut as sending a message to the market that the economy is weaker than originally thought
- Market and FOMC rate cut expectations are in line for 2024, but diverge in 2025 – the market is pricing in an additional 200bps of cuts through end of 2025, whereas the FOMC's Summary of Economic Projections shows 150bps of cuts
- D.A. Davidson's Institutional Equity Research outlined a few key takeaways in their note following the meeting
  - Lower rates are good for banks over medium term, but heavy Fed hand will pinch near term due to the potential net negative impact to median NIM, as asset yield repricing outpaces deposit cost reductions
  - AOCI recovery will drive strong TBV growth, with rates overall lower from 6/30 to 9/30. 10-year yield is down 63bps since 6/30 – In Q1 '23 and Q4 '23, similar declines in the 10-year drove TBVPS growth of 7%-13% for banks in Davidson Research Universe most impacted by unrealized AFS losses
  - Lower rates should be positive for credit– while most issues so far have been in CRE, particularly office and multifamily, there has been an increase in criticized C&I loans, albeit from all-time-lows

Q3 Earnings Preview

- While many bank management teams welcomed the Fed's policy pivot, a more aggressive cutting cycle will cause NIM headwinds in the last two quarters of 2024
  - While the median NIM in Davidson's Bank Universe is expected to expand by 2bps in Q3, the median NIM is expected to contract by 5bps in Q4 as asset yields decline faster than deposits costs
  - Q3 data should see a peak in deposit costs, driven by continued mix shift and managements' reluctance to drop deposit costs quickly, which will not yet be offset by weaker deposit competition and fewer product cost increases
- Q3 credit outlook remains positive, based on discussions at industry conferences and management meetings
  - Pace of loan tightening moderated for the fourth consecutive quarter – NCOs historically peaked within ~5 quarters of banks moderating underwriting standards
  - Bank stocks have historically rallied in advance of peak NCOs
- Loan growth is expected to pickup modestly in Q3 at 3.8%, compared to 3.0% in Q2 2024
  - Nevertheless, most of the loan commentary remains fairly muted as borrowers are still on the sidelines waiting for lower rates, more evidence of a soft landing and uncertainty with the upcoming election

Updated Regulatory Guidance for Bank M&A

- On September 17, the DOJ, OCC and FDIC issued final revisions to their bank merger policies
  - As a part of the announcement, the DOJ withdrew from the 1995 Bank Merger Guidelines and embraced the 2023 Merger Guidelines for evaluation of bank mergers
  - The Federal Reserve did not make any changes to its merger evaluation policies
- A notable change that the final revisions focus on, and a difference between 1995 and 2023 merger guidelines, is a bigger reliance on qualitative factors that are up to the discretion of individual agencies, as opposed to quantitative metrics (such as Herfindahl-Hirschman Index) that are often more objective
- According to FDIC's final revisions, the FDIC Board reserves authority to act on any merger application for which FDIC staff has not found favorably on one or more statutory factors (such as less financial risk for the combined company and convenience and needs of the community to be served)
  - FDIC Vice Chairman Travis Hill voiced his criticism of new guidelines saying that they could lead to more unpredictability and less transparency in the merger evaluation process, rather than addressing the underlying causes of bank consolidation
- OCC's final revisions recognized that the majority of transactions will be in the "middle category" of transactions, which do not necessarily posses all features that support approval, but also do not have any of features that would cause further scrutiny, making these transactions likely consistent with approval

Source: S&P Capital IQ Pro; D.A. Davidson Research; FedWatch Tool; DOJ; FDIC; OCC; data as of 9/30/2024
Note: Complimentary Davidson Research reports referenced above are available upon request

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1 U.S. Bank M&A Activity

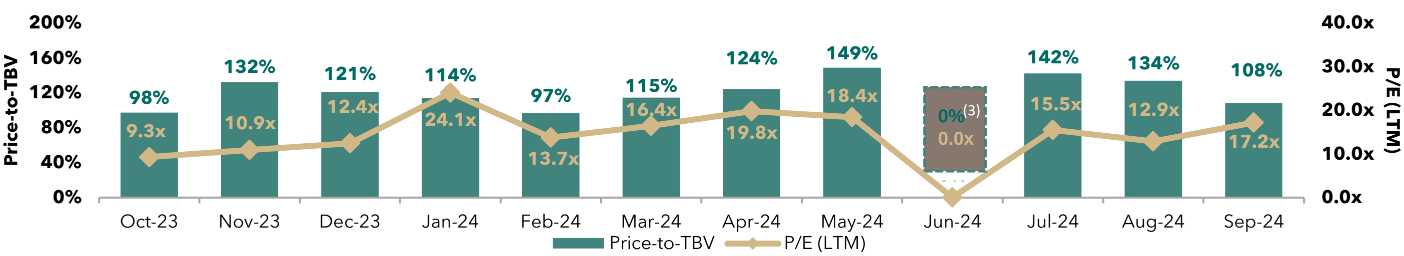
- M&A activity is incrementally increasing
  - M&A activity is below historical levels, but starting to see a slight increase in deal activity
  - On pace for 123 transactions in 2024, a 26% increase from 2023
- Credit unions continue to be active bank buyers with 16 transactions announced in 2024 YTD and account for over 17% of the M&A transactions Nationwide
- Types of transactions should vary in the upcoming quarters including smaller 100% cash deals, predominately (or 100%) stock deals and strategic partnerships (100% stock)
- Increased regulatory scrutiny and longer than average time to obtain regulatory approvals are top of mind for management teams looking to complete a transaction

M&A By Region – Last Twelve Months(1)

Region	Deal Value ($M)	# of Deals	Deals w/ C.U. Buyer	Price-to-TBV	P/E (LTM)
Midwest	$ 3,518	44	3	135%	15.4x
Southeast	$ 2,350	22	3	128%	14.6x
Southwest	$ 4,099	14	2	149%	19.8x
Mid Atlantic	$ 919	10	2	80%	14.5x
West	$ 1,105	14	7	93%	15.5x
Northeast	$ 87	4	0	139%	17.2x
Total	**$ 12,077**	**108**	**17**	**128%**	**16.2x**

M&A Activity and Valuation Multiples – Last Twelve Months(1)

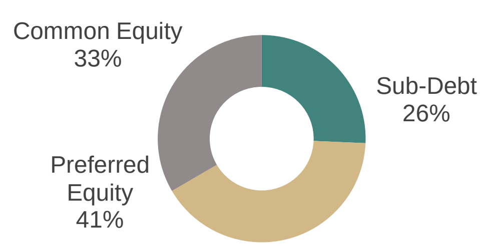
Deal Count	5	7	4	13	8	6	13	14	6	8	12	12



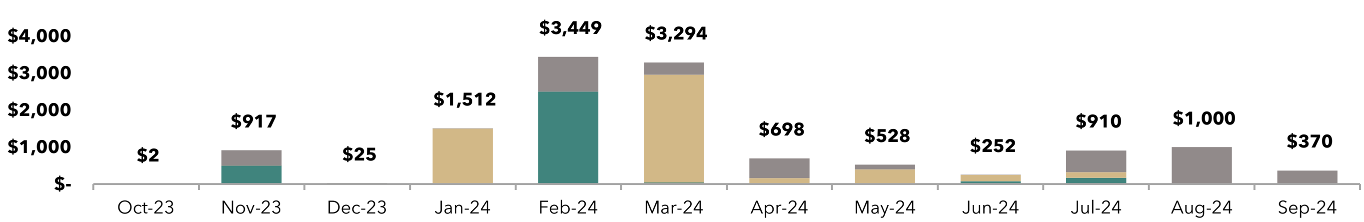
2 U.S. Bank Capital Offerings

- Following two months where U.S. banks raised almost $1.0 billion of capital on average, September saw a decrease in aggregate offering proceeds, with four common capital offerings and one sub debt offering with combined proceeds of ~$370 million
- Unlike in prior months, the offerings completed in September were not done in conjunction with M&A deals, but rather for general corporate purposes, as a result of slight rebound in valuations and in anticipation of rate cuts
  - The sole sub debt bank offering in September was done by First Business Financial Services, Inc., which raised $20 million of 7.50% fixed rate subordinated notes due 2034

Capital Offering Mix – LTM(2)



Capital Offering Activity – Last Twelve Months(2)



	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Common	$ -	$417	$10	$12	$949	$333	$538	$128	$1	$584	$1,000	$350
Preferred	$2	$1	$15	$1,500	$ -	$2,919	$161	$400	$177	$151	$ -	$ -
Sub-Debt	$ -	$500	$ -	$ -	$2,500	$43	$ -	$ -	$75	$175	$ -	$20

Source: S&P Capital IQ Pro; M&A and offering data as of 9/30/2024: Note: All dollars in millions, unless otherwise noted
(1) Median data for M&A transactions. Excludes terminated deals and FDIC-assisted transactions
(2) Excludes mutual conversions
(3) Transaction economics for June 2024 deals are confidential or awaiting release to the public

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Nationwide M&A League Table – Since 1/1/2023[1]

Rank	Advisor	# of Deals		Deal Value ($M)
1	Piper Sandler & Co.	36	$	4,379.5
2	Keefe, Bruyette & Woods	25	$	9,149.4
3	**D.A. Davidson & Co.**	**20**	**$**	**988.6**
3	Olsen Palmer LLC	20	$	57.6
5	Raymond James & Associates, Inc.	17	$	5,418.9
5	Performance Trust Capital Partners, LLC	17	$	303.6
7	Janney Montgomery Scott LLC	15	$	1,002.6
8	Stephens Inc.	13	$	2,402.2
8	Stephens Inc.	13	$	2,402.2
10	McQueen Financial Advisors II, Inc.	11	$	253.6
11	Hillworth, LLC	6	$	32.6
11	Hillworth, LLC	6	$	32.6
11	Mercer Capital Management, Inc.	6	$	-
14	Morgan Stanley	4	$	945.5
14	Donnelly Penman & Partners Inc.	4	$	45.2
14	Commerce Street Capital, LLC	4	$	-
17	Burke Stelling Group, LLC	3	$	294.2
17	The Kafafian Group, Inc.	3	$	93.8
17	Gerrish Smith Tuck Consultants, LLC	3	$	-
17	Cummings & Company, LLC	3	$	-

D.A. Davidson Bank M&A Transactions

1st Bank Yuma has agreed to be acquired by OneAZ Credit Union — Sell-Side Advisor

has agreed to merge with Byline Bancorp, Inc. — Sell-Side Advisor

Bridgewater Bank has agreed to acquire First Minnetonka City Bank — Buy-Side Advisor

Glacier Bank has acquired six branches from HTLF Bank — Buy-Side Advisor

Hopeton State Bank has agreed to be acquired by One America Bancorp Inc. — Sell-Side Advisor

HMN Financial, Inc. has agreed to merge with Alerus — Sell-Side Advisor

D.A. Davidson Bank Capital Offerings

ChoiceOne Financial Services, Inc. has completed a follow-on offering of common stock — $34,500,000 — Sole Bookrunning Manager

Vast.bank has partnered with a new investor — $53,000,000 — Financial Advisor

Dime has completed a public offering of subordinated notes — $74,750,000

Five Star Bancorp has completed a follow-on offering of common stock — $86,293,125

FirstUnited Spend Life Wisely has completed a private placement of perpetual preferred stock — $80,750,000 — Lead Placement Agent

LinkBancorp has completed an initial public offering of common stock — $38,259,038

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Source: S&P Capital IQ Pro
(1) Includes all whole bank and branch M&A transactions. Transaction league tables are as of 9/30/2024