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Merging Banks Strive for Balance of Power on a Tight Rope

Monday, December 10, 2012

FINANCE

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Bank mergers are always couched in terms to make them appear as if the banks are on equal footing, but that is rarely the case. Yet the latest announced combination of Coronado First Bank and San Diego Private Bank could be one of the more equitable in recent memory.

For openers, the proposed transaction calls for one CEO Selwyn Isakow of SDPB to assume the title as chairman of the board of the merged entity. The other CEO, Maria Kunac of CFB, will retain the same job at the new bank that will be called San Diego Private Bank.

While SDPB retains its name, the deal allows for CFB to retain its name at the headquarters office at Orange Avenue on the "island." The two other branches will take the SDPB name.

But the essential contract still puts CFB in the control position. That's because it's the larger entity (by about $30 million in assets) and paying SDPB shareholders 0.545 shares of its publicly traded stock for each share of SDPB, which isn't traded and tightly held.

According to the only statement on the deal from the two banks, the stock sale would result in CFB (with $166 million in assets and $28 million in equity) paying $15.5 million for SDPB (with $129 million in assets and $13 million in equity).

An inevitable consequence of two entities merging forces is the musical chairs elimination of jobs at the top. There can only be one CEO, one CFO, one COO, and one of a handful of other management positions. If the deal involves branch closures there'll be more staff cuts.

Similarly, when the two bank boards are merged, some directors won't find an open seat.

The banks said the merger is expected to close sometime in the first quarter after it receives shareholder and regulatory approvals.

Isakow, who is the majority owner of SDPB, declined to provide further details on the board's make-up, even refusing to reveal the number of seats on the new board.

That information will be disclosed at some point when the proxy report is issued. CFB is a publicly traded company and required to do so.

Some of the directors on each board have high-profile names. At the SDPB board, among the heaviest of hitters is Ernest Rady, founder and chairman of American Assets Inc., which is described on the bank's website as "a conglomerate that controls businesses in numerous sectors of the economy." For 2011, Rady was ranked No. 6 on the San Diego Business Journal's Wealthiest list with an estimated net worth of $420 million.

Other big names on SDPB's board are David Ellman, chairman of the Gerber Goldschmidt Group, "a 90-year-old private equity and trading group;" Gordon Frost, chairman and CEO of Frost Hardwood Lumber Co.; and Sami Ladeki, founder and CEO of the Ladeki Restaurant Group, which operates the Sammy's Woodfired Pizza chain as well as Roppongi Restaurant in La Jolla.

Coronado First Bank's eight-member board also features some well-known names, especially in the world of local finance. Peter Q. Davis spent most of his career heading up the Bank of Commerce, a hugely successful lender sold for a high multiple to U.S. Bank. In addition, Davis served on the boards of Centre City Development Corp., San Diego's downtown redevelopment agency (before it was extinguished by Sacramento fiat), and chaired the San Diego Port Commission. He also finished third in two successive campaigns to become San Diego's mayor in 2000 and 2004.

Other notable directors on CFB's board are Steve Rippe, the bank's chairman who also doubles as the chief credit officer (a rarity), and the former chairman of Embarcadero Bank, which acquired CFB last year; David Engelman, who has been the CEO or COO of Mortgage Guaranty Insurance Corp., Union Federal Bank, Fleetwood Enterprises and Financial American Network; and Kunac, who was named CEO of Embarcadero Bank, and later CFB after it was acquired in November 2011.

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San Diego County Credit Union Profit Rises: San Diego County Credit Union, the area's largest credit union, got larger this year, growing 8.5 percent to $5.79 billion as of Sept. 30. Net income for the nine months also grew by nearly 15 percent to $60.7 million. And its membership also was up by 9 percent to about 239,000.

SDCCU's loan portfolio edged up about $10 million over the year to end the third quarter at $3.17 billion. Year to date loan originations increased 17 percent to $1.1 billion.

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Small Change: First PacTrust Bancorp, parent to PacTrust Bank, conducted another capital offering recently, raising at least $33 million in senior notes due 2020 paying 7.5 percent. The banking company did a similar capital raise in April … Nearly half of small-business owners (49 percent), said the relationship with their bank is a "very important" part of their success, according to a survey by California Bank & Trust. The same survey found 48 percent think that California's economic climate is worsening, while only 23 percent think it's improving.

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