

Talmer Bank turns tarnished failures into golden assets

Where others shut down, Troy-based operation steps up

By Paul Gores of the Journal Sentinel

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Failure is perhaps the most dreaded word in banking. But for Talmer Bank and Trust, failure - by other banks - is turning out to be the path to success.

A little more than a year ago, Talmer Bank and Trust, which was called First Michigan Bank at the time, had assets of about \$100 million and 35 employees, characteristics of a small community bank. Today, it has assets of more than \$2 billion and 925 employees, almost all of the growth coming by acquiring banks closed by regulators.

Among them was First Banking Center in Burlington. Last November, when regulators shut down First Banking Center - one of Wisconsin's 20 biggest local banks - amid continuing loan losses, the operators of Talmer obtained most of the deposits and loans in a deal with the Federal Deposit Insurance Corp. and immediately reopened it as a branch.

The entry of the Troy, Mich.-based bank into Wisconsin was in keeping with its primary strategy of expanding into new territory or beefing up its presence in existing markets by taking over failed banks.

"We are a Midwestern-based regional bank holding company, so Wisconsin, Illinois, Michigan, Ohio and Indiana all fit within our business plan," said Gary Collins, vice chairman of Talmer Bank and Trust.

With four failed-bank acquisitions under its belt so far - three in Michigan and one in Wisconsin - Talmer is just getting started.

"Our goals are lofty, in that sense," said Collins, who is president of the Wisconsin region for Talmer. "We want to grow both through further acquisition and organically. We are focused on acquiring banks from the FDIC all around the Midwest."

Capital intensive

Wisconsin has had only six bank failures since the recession, which is far fewer than many states. But privately owned Talmer also is listening to bankers who want to sell their institution for any number of reasons, "financial or fatigue or whatever," Collins said.

"We like Wisconsin a lot," Collins said. "So coming in to Milwaukee or over to Madison, if there is the right community banking opportunity, we're very interested. We are actively looking."

Crucial to Talmer's ability to expand by buying failed banks is capital, and it has an abundance of it. A large amount of capital puts a smile on the face of bank regulators - especially now - because it is a sign of strength, serving as a cushion against loan losses.

Talmer Bank and Trust was started in 2007 as First Michigan Bank, with \$10 million in capital from a group of local investors. When the bank's current chairman, David T. Provost, joined in 2008 after leaving ThePrivateBank-Michigan, he raised \$13 million more and came up with a plan for expanding the bank in Michigan, mainly targeting wealthy customers.

But about that time, the banking industry was becoming stressed as housing continued to slump and the recession took hold. Banks began to fail around the country. The company's leaders saw an opportunity to grow beyond Michigan through acquisitions of failed banks in the Midwest.

Collins said Provost raised \$400 million in capital in spring of 2010 with a new business plan focused on buying banks closed by regulators and reopening them with the same employees and serving the same local communities.

Among key contributors was an investor with a national reputation and know-how for reviving failed and struggling businesses - Wilbur L. Ross Jr., chairman and chief executive of WL Ross & Co. He is the bank's lead investor and a member of its board of directors.

"We wanted to do a meaningful amount (of capital) because the problems are big, and we want to be effective and make a meaningful mark in buying the banks," Collins said.

In taking over failed banks, Talmer enters into loss-sharing agreements with the FDIC to limit losses from the shuttered bank's loan portfolio.

Survival mode mentality

Acquiring a failed bank sometimes comes with special issues beyond dealing with shaky loans and nervous customers.

"These banks have gone through a very difficult period, struggling to survive," Collins said. "Often the staff has been working long hours trying to preserve the bank. They haven't gotten raises. They've cut expenses to the bone. So when we come in and are able to reinvest in the bank and in the communities, instead of being on the defensive, they can go back to being on the offensive and serving their communities, making loans, taking care of their customers. It's a real breath of fresh air for the staff to be able to go back to not trying just to survive."

Collins said he expects the climate for bank failures to continue for another 18 months or so. He said Talmer aims for banks in the asset range of \$200 million to \$1 billion, "or slightly larger," as acquisition candidates.

Jon C. Bruss, CEO of Fortress Partners Capital Management in Hartland, said the involvement of Ross in Talmer Bank and Trust is a plus because "he is clearly a guy who has a trail of success."

"I think their strategy is a good one to the extent you feel comfortable with the economic climate in the states in which you're investing," Bruss said.

Talmer isn't the only bank in the U.S. growing through acquisition of failed institutions, and several - mostly in Southern states, where bank failures are much more common than in Wisconsin - have obtained more of them so far.

Attorney and bank consultant Jeffrey Gerrish said growing by acquiring failed banks is a good strategy as long as a bank has a system in place for dealing with the FDIC and loss-sharing on the loans.

"Most failed banks, you don't want to do just kind of a one-off deal," said Gerrish, chairman of Gerrish McCreary Smith in Memphis, Tenn. "If you're going to do them, you'll get a lot better economies if you do more than one. I think it's a fine strategy."

Last spring, the company changed the name of the bank from First Michigan Bank to Talmer Bank and Trust, a move that makes sense as it looks to grow beyond Michigan. The Talmer name is derived from the surnames of grandfathers of the bank's two founders - Talmage and Merzon.

Talmer isn't saying publicly how large it intends to be, but its executives aren't thinking small.

"It's probably a multiple of where we are now," Collins said.

Talmer Bank and Trust

Headquarters: Troy, Mich.

Assets: More than \$2 billion

Employees: 925, including 240 in Wisconsin

Branches: 51

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